



# Management in Complex Environments: Questions for Leaders

**NIR**

Näringslivets Internationella Råd  
International Council of  
Swedish Industry

Brian Ganson, Editor

## FOREWORD:

# *Why this book?*

Presence in emerging markets is vital for company growth and to increase our value and profitability. Our operations can also make meaningful contributions to the developing countries in which we are present. Yet there are many risks when operating in fragile contexts: to the local business, the company as a whole, and if we are not careful to the communities and broader societies in which we operate. Good leadership is essential. This is why this book about leading companies through the challenges and opportunities of complex environments is so important and why it enjoys our support.

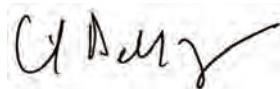
Company leaders responsible for operations in complex environments juggle many responsibilities. They must manage risks to the company and others, develop a successful business despite the challenges of the operating environment, and proactively engage in ways that create shared value among the company and the society of which it is part.

These leaders are acting at the intersection of headquarters and the field, strategy and operations of the company, and the company's relationships with private sector, government, community and civil society partners. They must navigate the inter-relationships of the company with the social, political, economic and conflict dynamics of the complex environment. This is a difficult task.

This NIR-led initiative to rally practical experience and expert insight will help build stronger local leadership as one key to ensuring a proactive and practical approach to technical, financial, legal and social demands and opportunities. Some 100 interviews conducted with general managers and senior executives representing over 35 international companies provide a solid and credible foundation for this book. This unique perspective provides valuable, hands-on information about the reality of leadership in complex markets.

As senior executives we must recognise that the capabilities gap can be quite considerable when managers transfer from headquarters or a mature market to a complex environment. Hearing many leaders express that they felt isolated and under-prepared is for us an eye-opener that calls for further investments in leader development. Much to our satisfaction, many positive examples of leadership and success also emerge. This shows us that good leadership is within our reach.

To achieve the levels of performance that we expect from managers in our organisations we must support the leaders of today as well as help the next generation of leaders quickly become more proficient in managing within complex environments. This book can help shorten the path and efficiently bridge knowledge gaps. In a changing and challenging world, both leaders and the companies they manage will be far more successful as they become more attentive to the questions and insights set out in the following chapters.



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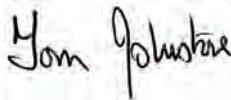
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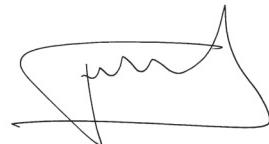
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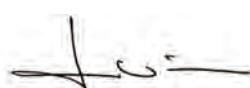
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## Acknowledgements:

# How did this book come about?

This book is an initiative of NIR, the International Council of Swedish Industry. Funding was primarily through Sida, the Swedish International Development Cooperation Agency.

It is the result of collaboration among company managers, researchers and practitioners. All were motivated by a desire to improve the business and social performance of companies operating in fragile contexts and the capacities of their leaders. They were supported by any number of companies and partner organisations who shared their research, resources and practical experience. We recognise and thank the many friends and colleagues who contributed their perspectives, ideas and advice.

Over the course of this project we spoke with well over 100 company managers from more than three dozen companies. A particular note of gratitude is due to the company leaders working in complex environments who so generously shared their time and insight. By freely and openly relating their mistakes, lessons learned, strategies for success and plans for the future they more than anyone made this book possible. We thank you.

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First published in Sweden in 2013.

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ISBN: 978-91-637-3991-0

Printed and bound by Lightning Source Co, UK

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The volume as a whole may be cited as: B. Ganson (ed.) (2013). Management in Complex Environments: Questions for Leaders. Stockholm: International Council of Swedish Industry.

Individual chapters and case stories may be cited as: Chapter or Case Author (2013). *Chapter or case story title*. In Management in Complex Environments: Questions for Leaders (B. Ganson, ed.). Stockholm: International Council of Swedish Industry.

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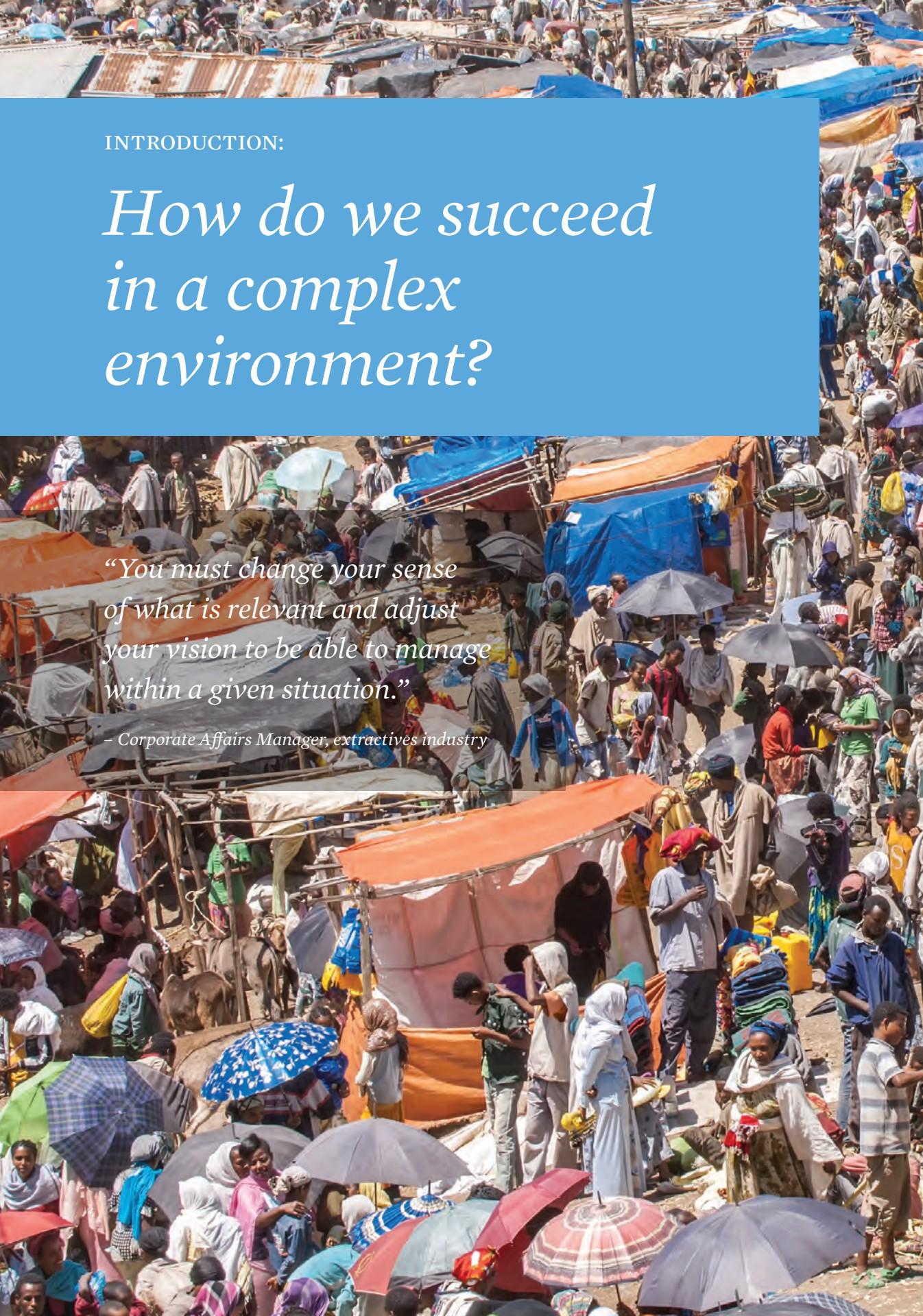
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INTRODUCTION:

# *How do we succeed in a complex environment?*

*“You must change your sense  
of what is relevant and adjust  
your vision to be able to manage  
within a given situation.”*

*– Corporate Affairs Manager, extractives industry*

*Successful business leaders in some of the world's most challenging environments share the discipline of asking questions. It helps them navigate substantial risks and challenges, grow their businesses even in unexpected places, and work more effectively with local and national actors who at different times greet the company with warm welcome, indifference, suspicion or hostility. This book presents questions for leaders that point to more thoughtful and rigorous strategies to meet a company's full range of goals – technical, financial, legal, reputation and social – even in the most complex markets.*

Successful business leaders in some of the world's most challenging environments share the discipline of asking questions. They remain curious about everything in the places in which they do business. They stay alert to the interplay of the company and its operations with the people and events around them.

Constant inquiry helps them artfully navigate substantial risks and challenges. Complex environments are defined by rapid and often unpredictable changes. They are rumour rich and information poor. They present problems quite unlike those found in more stable markets. Political, economic, social and conflict dynamics whether related or seemingly unrelated to the company's operations can impact the business.

Their inquisitiveness allows leaders to grow their businesses even in unexpected places. They remain ready to seize first-mover advantages to establish new markets, attract loyal customers, and build business relationships. In a complex market operating under the constraint of limited supply, they find significant prospects for a company that can deliver quality products and services despite challenging conditions.

A spirit of inquiry also serves leaders as they work with governments, community members, civil society organisations, and other local and national actors who at different times greet the company with warm welcome, indifference, suspicion or hostility. They find that common ground can be established and the interests, needs, and priorities of a broad range of actors more easily be harmonised with a demonstrated willingness to listen and learn.

This book presents questions for leaders that experience shows can guide more thoughtful and rigorous strategies for businesses operating in complex environments. It suggests inquiries that allow managers both to mitigate risks and create new opportunities in difficult places. It demonstrates through the practical examples of successful company leaders why asking and addressing these questions helps managers meet a company's full range of goals – technical, financial, legal, reputation and social – in challenging business markets. In doing so it aspires to support new leaders as they work to achieve their own successes for both their companies and the societies in which they do business.

## *What do we mean by a complex environment?*

The book uses “complex environment” as an admittedly imprecise yet all the same useful term. It describes places where society’s challenges are more pronounced and the capacity to manage those challenges is diminished.

Challenges may be socio-economic, including high unemployment, shortages, rapid urbanisation, low levels of education, labour unrest, or high levels of inequality. They may be socio-political, including ethnic or religious competition, inter-regional or regional-national tensions, real or perceived discrimination, unresolved grievances, or pronounced disagreements over the role of the state. They may be governance and justice challenges, including severe corruption, human rights abuses, lack of a functioning legal system, inconsistent or erratic government decision-making, or a policy vacuum or policy volatility. They may be security challenges, including armed conflict, regional instability, a legacy of violence or trauma, criminal networks, high levels of violent crime, terrorism, or challenges for demobilised combatants.

Diminished capacity to manage tensions and stress factors in a complex environment assumes equally diverse shapes. These can include lack of government legitimacy in the eyes of significant segments of the population or deep distrust in the aftermath of conflict. These reduce the possibility for parties to come together even around common challenges or for sound solutions proposed by one side or the other to gain support. They encompass a government spread too thin or lacking the technical or financial resources to implement its well-intentioned ideas. They may include a government captured by a particular elite and indifferent to the plight of others. There are often gaps in education, business, and civil society capacity as well. All may restrict a society's ability to mobilise action commensurate with the challenges it faces.

Each environment is complex in its own way, defined by the mix of challenges society faces and the sufficiency of the social, political and economic resources it can rally to confront them. Certainly any environment in which there is overt conflict or which is newly emerging from violence will qualify as complex. So will all of those found in global indices of fragility or instability. But so too will many places that are experiencing something closer to social and political growing pains. There is often consensus on where society should go: most people share a picture of a modern society, with available products and functioning services and institutions. There may all the same be significant intellectual and political diversity of opinion on how to get there. This is where complexity arises.

## *Why questions and not answers?*

To support successful management practice for complex environments, this book recommends questions for leaders.

The book emphasises questions because complex markets are not only different from their more stable counterparts. They are different from each other in their challenges and opportunities. A country in the former Soviet Union may be beset with corruption but have deep technical skill and industrial experience. An African country may have expectations for establishing local industries tied to mining out of proportion to its education infrastructure, but rally a broad social consensus on the desirability of supporting the extractives industry to help drive development. Meanwhile in Asia, parts of a country may be conflicted over the place of mining in the economy at all, but have achieved broadly positive labour – management relations. To come full circle, we find a Latin American country where there is a propensity for unions to strike, but strong rule of law. Each market may be complex, but it is differently complex. No approach – no matter how well it works in one place – can be simply imported to the others. Best practice is therefore not a particular strategy, system, or process. Best practice is to understand with great nuance each environment and the company's place within it. For this it is imperative to lead with questions.

The book also prioritises questions to acknowledge the value of traditional management approaches with which leaders may already be intimately familiar. SWOT (strengths, weaknesses, opportunities, threats) analyses, risk frameworks, systems analyses, root cause analyses, force field analyses – these all have as much a place in complex markets as they do in more stable ones. What may well be different is the nature of the questions needed to populate such management tools and frameworks. This book focuses on the questions that may less obviously spring to mind in a European capital, but prove imperative to avoid blind spots and missteps in less predictable places. Once supplied with the insights answers to these questions unveil, our experience is that seasoned managers can, for example, introduce scenarios into the company's strategic plan describing dynamics that could lead to further instability and conflict. They can identify approaches that better support much-needed stability. Leaders are able to review operating plans of each company department – human resources, procurement, labour relations, plant operations, community relations, and so on – with an eye to how they help shape a positive operating environment or mitigate risk factors that the company cannot effectively influence. The focus on questions emphasises that the problem may not be that traditional tools of management do not apply in complex environments, but that they are not applied with sufficient rigour.

The book additionally privileges questions because of the growing recognition that companies in complex environments must partner with others. Water scarcity, a low level of basic competency among new graduates entering the workforce, or risks of intercommunal violence are all challenges that a company may confront. But they are ones the company can only address to the extent that it works together with governments, civil society organisations, local communities, other companies, and development actors. Asking questions about the complexities of the environment and the company's role within it first of all sensitises leaders to the perspectives, aspirations, fears and constraints of others. This makes it more likely that an attractive invitation to joint action can be extended. Asking questions then reminds leaders that coming to the table with a firm proposal or preferred solution is antithetical to true partnership. Collaborative information gathering, analysis, planning, decision-making, implementation and monitoring and evaluation require listening and learning. They are nurtured by wise and open questions.

## *What are the elements of this book?*

The book rallies the insight of experts, companies, and individual business leaders. It proposes questions that have proven salient to successful management in a broad range of complex markets, as well as perspectives on how a manager might address these questions in a way that fits a particular difficult environment.

The main chapters are each written from the perspective of a different expert domain. The first three chapters propose *Questions for Understanding*. Their primary goal is to help leaders turn what may be “unknown unknowns” in a particular complex market into questions for exploring the unknown. Remembering that each environment is distinct from every other, Chapter One asks, “What makes this environment complex?” Emphasising the multiple and intricate inter-relationships among the company, its operations, its neighbouring communities and the broader society, Chapter Two asks, “How do our operations interact with the environment?” Acknowledging that the company has technical and financial goals but also legal, reputation and social obligations and interests, Chapter Three asks, “Are we meeting our responsibilities?” Together these chapters should give leaders broad insight into a complex environment and the company's place within it.

The next three chapters propose *Questions for Action*. Their primary goal is to help leaders turn new insight into effective strategies for the full array of company actors in the complex market. Advocating the need to stay alert and remain curious, organizationally and individually, Chapter Four asks, “Are we disciplined about asking questions?” Seeing opportunities to reduce risk and increase positive potential in partnership with a variety of other actors, Chapter Five asks, “Are we working well with others?” Finally, knowing that the company must adapt its management to the imperatives of the difficult environment, Chapter Six asks, “Is our own house in order?” Together these chapters should provide leaders with a lens for assessing company performance and taking appropriate management action vis-à-vis the challenges of a particular complex environment.

Complimentary to the six main chapters are substantial *Case Stories*. These are five company narratives of discovery, adaptation, and learning in complex environments. We witness Sandvik in Zimbabwe as it confronts the scourge of HIV / AIDS and asks, “How can we be a catalyst for change?” We examine Scania in Colombia and Iraq as it acknowledges the conflicts around it and asks, “How can we be a force for good?” We listen as Electrolux in Poland encounters a volatile union and asks, “How can we help labour become the partner we need?” We watch Tetra Laval in a variety of countries tackle the challenges of inclusive value chain development and ask, “How do we put all the pieces together?” We look to Atlas Copco in South Africa as it internalises the imperative for social transformation and asks the question, “How can we better link social performance and business goals?” These narratives illustrate how companies have asked new questions to generate actionable insight that achieves more positive results for both companies and societies.

Interspersed among the chapters are a series of shorter case stories we call *Company to Company*. These capture businesses in a particular time and place as they confront a specific business challenge. The bank ABN Amro is faced by a ferocious campaign against one of its portfolio loans and has to ask, “What are we accountable for?” Schweppes Zimbabwe Limited experiences one of the greatest hyperinflations of history and wonders, “How do we manage through the worst of it?” The Brazilian Sporting Goods Association sees its footwear imports cut off from one day to the next and asks, “How do we prepare for the unforeseen?” From these and other examples leaders may see what other companies have confronted, how they responded, how it worked, and what they learned about company management in a complex environment. These stories may increase awareness and shorten learning curves for those who follow.

Also found among the chapters are a series of reflections bringing together the voices of company managers we call *Leader to Leader*. In our research for this book, we spoke with over 100 business leaders. Most had job titles such as country manager, managing director, or site manager and were working directly in complex markets. We also heard from leaders in headquarters, including those to whom managers in complex markets report such as regional vice presidents of operations; functional experts such as legal counsel or human resources managers who support line managers in sensitive environments; and others who have a particular perspective on complex markets such as directors of planning and business development. When asked what concerned them most, they often spoke to the same questions, for example: corruption; how a company can be a better partner to government; managing risk; planning under uncertainty; the leader’s role; dealing with headquarters; and developing people. In these reflections we convene “virtual focus groups” that gather their collective insights and advice on these topics for future leaders. We find their perspectives both insightful and inspiring.

At the end of the book are resources for business and about business in complex environments for further exploration.

## *How can this book help a leader?*

In the first instance we expect that the questions explored in this book will help leaders broaden their perspective on who and what matters to the company in a complex environment. Overwhelmed by day-to-day challenges of business continuity, or perhaps lulled by a calmer period into complacency, managers report that it is easy to live in a world defined by immediate colleagues, business partners and customers, and perhaps a few key national government officials. The focus is on business needs. The lessons from company and leader experience, however, are that a company that enters a complex market becomes part and parcel of a system populated by a variety of constituencies. They have a range of competing agendas, only some of which even take notice of the company and its operations but all of which are likely to impact them. The book invites leaders to look for and learn about these people and their priorities nationally and locally, and across social, political, economic and conflict domains.

We also expect that these questions will help leaders take a more proactive stance towards risk management. Risk management in most companies as it relates to complex markets still tends to focus on sovereign risk, concentrating even further on the actions of elite figures on the national stage. It is largely a passive view of risk, asking how the actions of government may affect the company. And it is often a spectator sport, driven by outside consultants and analysts. Yet the lessons from company and leader experience demonstrate that when a company loses its investment or otherwise experiences failure in a complex environment it is likely to be caused at least in part by the company's own actions. Managing risk requires leaders both to look for changes in a dynamic environment, and to track trends over time. They must actively manage the company's interactions with the complex market not only in terms of business transactions or formal government or community relations, but across every element and every agent of the company that touches its employees, neighbouring communities, or dynamics of the broader society.

Finally, we expect that the process of addressing these questions will help leaders align the various parts of the company around opportunities in the midst of complexity. Many corporate systems and processes vis-à-vis the complex environment emphasise compliance-focused audits, assessments, and reporting into corporate and global stakeholder systems. Information is often collected in functional silos across legal, community and government relations, security, finance and other departments. The result is too often that the company's inputs of time, energy and money do not achieve the outputs of better performance to which it aspires. These questions for leaders provide a meeting place across functions and activities for reflection, planning and action. They help shift the conversation from mere compliance to how the company as a whole can better engage to create a virtuous circle of new business opportunity, focus and extension of company activities to meet social needs and expectations, and ultimately a greater measure of stability that opens even more possibilities.

We hope that however the questions posed in this book are used they are a source of inspiration for leaders and their teams to learn more and try more in complex markets. There is a tremendous amount of excitement and sometimes even joy among the managers with whom we were privileged to work in the development of this book. When asked about the source of their positive energy among the challenges of working in difficult places, they were even surprised by the question. Innately curious, they were genuinely interested by the country where they worked, its people, its politics, and its society. Reasonably ambitious in their careers, they found ample opportunity to learn, grow, and demonstrate their ability

to tackle substantial business challenges. And convinced through experience that there needed to be little at conflict between a sustainable business and a sustainable society, they were happy to know that they were contributing to both. We will be pleased if this book helps the next generation of leaders build on past experience and insight to ask even better questions. We trust that in doing so they will find more lasting successes in complex environments for businesses and the societies of which they are part.



READER'S GUIDE:

# *How can I put this book to work?*



*“You don’t know what you don’t know. So listen, listen, listen.”*

*– Community Relations Manager,  
extractives industry, Asia*

*We can ask the questions for leaders posed in this book with a variety of purposes in mind. We can approach them in many ways. Here are some ideas.*

## *For what purposes are these questions useful?*

One straight-forward use of these questions is to help us gain a management overview of a new place. They help us understand the external environment, the company's impacts in that specific context, particular responsibilities to which the business must be attentive, data and analytic needs, the company's stakeholder relationships, and management imperatives that ensure that the company confronts risks appropriately and recognizes opportunities. We can through openness and curiosity understand much about the world around us. These questions for leaders, however, provide a more rigorous framework that helps set priorities for learning. They help ensure that important issues and understandings do not escape our attention as we become familiar with a complex environment.

These questions for leaders can also help our management team plan for a major shift in company activity: entering a new market segment or geographic region, winding down particular operations, or shifting from a start-up to a production phase of work. Since our operations are part of a complex and dynamic system, any significant change we make may affect many other players and interests in ways that may not be so obvious. We can use these questions to guide a "pre-mortem:" we imagine ourselves sitting around the table in the future looking back on what we saw and were attentive to that ensured our success, or conversely what we missed or ignored that caused us problems. Since the environment around us may change rapidly, periodic reviews may also be in order.

We may also put these questions to work to help diagnose persistent problems or prepare for formal assessment processes. They may help us gain new perspectives on the inter-relationships among social, political, economic, and conflict dynamics. They may help us develop fresh hypotheses about our own possible role in problems we face. While these questions for leaders draw on a variety of expert domains – political economy, stakeholder relations, law, general management, and so on – they are not presented from any particular functional perspective. They may therefore provide a meeting place for different divisions of local operations and for country and headquarter organisations to build common understanding about a complex environment.

The questions are posed in ways that are intended to be useful in discussions with external stakeholders. We can learn from others about the daily lives of people, their hopes and fears about the company and its operations, or what they believe our responsibilities may be. We can together see what information we each need to make wise decisions, decide how we can best work together to explore common ground and develop collaborative solutions, or discuss where they believe company policies, plans or practices put us on a collision course with others. In these conversations as in the others, we demonstrate respect and a spirit of collaboration by asking what additional questions we should pose and which we should prioritise.

## *What are different perspectives on these questions?*

These questions for leaders do not have any universal answers applicable across all complex environments. Even in a particular context they will have different meanings for different

people in different times and places. The more fruitful goal might therefore be less to find an authoritative answer than to investigate a variety of perspectives on the questions. We might want to consider differences across international, national and local levels of analysis. We will probably want to consider how employees, customers, suppliers, communities, governments, civil society actors, or even criminal gangs prioritise issues and address them differently. We might put to work the lenses of our various thought partners inside and outside the company – colleagues in different functions, risk management consultants, external advisors, or government and community partners – to create richer and more varied understanding.

It may also be helpful to think through these questions reactively – how we are affected – and proactively – how we can effect change. As individual leaders, members of the management team, the local operation of an international company, and as a global organisation we will want to better understand the sources and fully map the consequences of the variety of pressures we experience from internal and external constituencies and broader dynamics. These questions for leaders can help us perform such root cause analyses. We will then want to explore the full range of options at our disposal – from changing the way we manage to renegotiating our responsibilities to working to change a source of instability in the community in which we are working – to better meet our full range of goals in the complex environment. These questions for leaders in this way are guides to more strategic thinking, planning and action.

We encourage leaders to consider these questions with an ethical lens. Many managers report that they feel at risk of losing their inner compass in the midst of seemingly overwhelming challenges such as widespread poverty, entrenched corruption or persistent violence to which so many seem oblivious or resigned. These questions for leaders may help us continue to ask what is happening around us, who is gaining and who is losing from different social, political, economic and conflict dynamics, how we feel about it, what should be done, and what our role might be. In quite simple terms, we can consider how we would address these questions with our children, in a conversation with a person whose values we respect, or were our actions and inactions brought to light on international TV. The broad experience of the many managers from whom we heard was that – despite incentives to take ethical shortcuts – doing the right thing in the right way is in fact the expedient path.

## *What am I reading?*

The expert insights presented in the chapters that follow are drawn from sound research and long experience across many companies and contexts. They also draw on analogous experience from others who work in complex environments, among them governments, international organisations, and development and peacebuilding actors. Dynamics described and examples given are typical rather than universal. They represent patterns to which a leader may want to be attentive. If we recognise our situation in a challenge or bad experience that is presented, we have one possible diagnosis for a problem we are facing. If we find ourselves thinking that our situation is quite different, we may have identified a strength in our own company or a source of resilience in the society around us that we will want to nurture. Similarly, research on companies in difficult environments is often enough conducted on operations with large footprints – mining, infrastructure development, or commercial agriculture – in more remote areas where the company's impact may be more pronounced, and in more fragile and conflict-prone contexts. Yet these cases and examples

at the more complex end of the spectrum can put into sharper relief dynamics that we are experiencing in less pronounced forms.

The book speaks in a variety of voices. The content of each chapter comes from different experts applying distinctive domain perspectives. Case stories present company points of view. Company to Company examples are the reports of their authors, while Leader to Leader topics rally typical perspectives from many different managers. Throughout the book are quotations from individual company leaders speaking from their personal experience in Africa, Asia, Latin America, the Middle East, and Eastern Europe; in construction and engineering, heavy industry, the extractive industries, agribusiness, light manufacturing, business-to-business services and consumer goods; in companies with thousands of employees or just a few in the country of operation; in countries large and small; and in environments ranked among the world's most fragile and those that, since we started this work, have graduated from inclusion in fragility indices. While these voices are in large measure congruent they do not always sing in perfect harmony. We can take advantage of these dissonant notes to remind ourselves that we must apply all of these insights and ideas within the context of our own company, local environment, and aspirations as a leader. We are asking and addressing our own questions for leaders.

Some note of what this book does not contain may be indicated. We have not addressed challenges of complex environments that are typically well-contained within functional domains of expertise: for example, management of foreign exchange risks, variations in labour market regulation, international arbitration clauses, or logistics. We do not attempt to provide an exhaustive or authoritative statement of all of the laws and regulations a company is expected to follow. Managers also report that companies are increasingly sensitive to certain cultural aspects of leadership, including local language training and attentiveness to local forms of politeness and respect, which we do not generally cover. We do touch on all of these issues to the extent they interact with social, political, economic and conflict dynamics in ways that management understanding developed for less complex environments may not address. These questions for leaders are a companion to rather than a replacement for existing company expertise.

Even within the domain of management in complex environments, the book does not pretend to be comprehensive or to offer all of the perspectives useful to a leader. In many cases we can only flag an area of inquiry as important for a country manager to explore with functional experts inside or outside the company. And as we reflect on these questions and make sense of them for our operations in the particular environment around us, more questions are likely to come to mind. At the end of the book are resources that can serve as a starting point for deeper and broader exploration. They include works for business and about business in difficult places. Also included are resources that provide practical insights from other sectors working in fragile and conflict-prone environments which may prove useful to company managers. Resources are organised from the most easily accessible to the more specialised.

The book structures questions for understanding and questions for action to invite reading and reflecting from front cover to back. Such a thorough reading might be most useful to those becoming newly acquainted with complex environments, or those wanting to refresh their thinking as they move from one to another. But we also hope and expect that readers will dip into relevant parts as often as they find useful. Each chapter, sub-question, case story and leader reflection is part of the whole, but also intended to stand on its own. These questions for leaders are building blocks that can be re-arranged according to the needs of the leader or the priorities of the business and the environment around it.

# 1

CHAPTER 1:

## What makes *this* environment complex?

*“It is necessary to know everything going on around the company: geography, politics, economics, expectations of the company.... While the company is trying to shape the environment, you need to remember that other actors are trying to shape the company.”*

*– Regional Manager, engineering services, Latin America*

*Our first critical task as managers is to understand the environment in which the company operates. Sound strategy, political risk mitigation, operational continuity, human resource management, stakeholder relations, social responsibility, and the security of people and assets all depend on a nuanced understanding of the people and the place around us.*

In an unfamiliar place we are first attentive to the “known unknowns.” We want to know about political parties and their orientation towards foreign investment. We work to understand the business and competitive landscape. We seek to identify different cultural groupings and the roles they play in society. On a practical level we want to know if we can drink the water and if particular neighbourhoods of the capital or regions of the country are safe. We may find that basic understanding of these issues is reasonably easy to achieve.

But we then become aware of “unknown unknowns.” We have perhaps internalised some of the more visible differences between the complex environment where we are now and our home market: levels of poverty, quality of the infrastructure, availability of basic education, the nature of labour-management relations, even perhaps expectations of a leader of a multinational company. But we increasingly suspect that people and institutions act according to unfamiliar considerations and that there are dynamics at work that we do not yet comprehend. We begin to see how things are, but we recognise that we do not yet know why they are.

Understanding these deeper workings of complex environments is not simple, but once we know what to look for it is more straightforward. A starting point is the recognition that the building blocks of even very different societies can be quite similar: families, cultures, power, interests, history, institutions, economic activity, relations between “us” and “them” whether neighbouring villages or neighbouring countries, hopes and aspirations, tensions and stress factors, and the like. It is the roles of these building blocks and their relations to each other that can be very different and which we must work to understand.

As we do so, what at the outset appears confusing or incomprehensible increasingly turns out to be quite comprehensible. We understand how millions of people get things done in their daily lives, often in the face of significant challenges. We see the implicit rules by which the society operates. We begin to comprehend what divides people and what connects them. In doing so we come to understand our own entry points into the complex environment, both as companies and as individuals.

These questions help us explore the complexity of a particular environment:

- 1.1 How do people experience complexity?**
- 1.2 How does the complex environment shape daily life?**
- 1.3 What are people’s stories?**
- 1.4 What are the various sources of power and authority?**
- 1.5 How do things get done?**
- 1.6 What are the characteristics of violence?**

## 1.1 How do people experience complexity?

*In particular if we are outsiders, we may use “complexity” as short-hand for “we don’t understand” or “it is difficult to get anything done.” This may in fact be true. Yet we can achieve a more nuanced understanding of the complexities of a particular place if we ask how other people experience complexity. Through their eyes we see both the limitations and the possibilities of interconnected social, economic and political structures and dynamics. We come to consider that the complexity of an environment may present opportunities as well as challenges.*

**People experience complexity in part as a state of affairs – individuals and communities facing problems that seem overwhelming or too big to be solvable.** The mega-trends of population growth, climate change, or urbanisation are well known to people who may experience them locally through overcrowding, flooding or air pollution. But people may feel powerless to do anything about them. Extreme poverty or violence have persisted for decades in many places, in part because they are perceived as too difficult to end.

People, organisations and systems tend to live with and even normalise such states of affairs. The less powerful may have elaborate and even insightful explanations for why things are as they are, while some elites will prefer to blame the victims. People show great resilience as they pick up their lives after a natural disaster, war, or famine and demonstrate great strength in the face of daily indignities and deprivations. But they may have limited belief that circumstances can change or that they can play a role in changing them.

This mindset can also be true for companies. The starting point for the case story of Sandvik Mining and Construction’s response to HIV/AIDS in Zimbabwe (page 50), for example, was that they initially believed that the problem was too complex for them to tackle.

*“What are the strengths of the country and its people? What are the needs of the real economy? Put these together and you understand where the opportunities will be in the future.”*

– Country Manager, extractives industry, Africa

**People experience complexity in part as a state of mind – an inability to plan because we simply don’t know what will happen.** A lack of predictability is a common factor of fragile environments that stands in stark contrast to developed

markets. While Swiss train drivers apologise to passengers for a two-minute delay, a train in a developing market may or may not come today, or tomorrow. Logistics, meetings, and life become less predictable. Business leaders acknowledge that, “*The only thing predictable in the complex environment is that everything will go differently from what you expect.*”

For people living on the economic margin in particular, this can have serious consequences. As set out in the case story on Tetra Laval’s Food for Development programme (page 158), for example, a farmer in Bangladesh can often rally the financing from family and friends to buy a milk cow. But he can only justify the investment if he knows that the milk will be purchased by a dairy every single day for a year. Lacking such certainty, he cannot plan even for the better future he knows in theory is obtainable.

***People experience complexity in part as the pace of change – rapid and often seemingly abrupt.*** A series of governments in the Middle East and North Africa fall within six months of each other. A city in Asia grows from insignificance to over two million people within just a few years. While on the surface situations may appear stable, they shift quickly after reaching a tipping point.

People experience the same dynamics at the local level. As if from outer space, company representatives arrive in a remote and impoverished region to start construction of a mine that they say will operate for 30 years. Seemingly as abruptly they announce that the mine is no longer economically viable and that they are leaving.

Positive changes can occur rapidly as well. A Latin American business leader noted that, “*A concerted effort by a city to address the causes of violence can change it from unsafe to safe in relatively short order. You can't only ask, 'Is this place safe?' You need to understand the underlying dynamics and politics. Otherwise you miss both dangers and opportunities.*” Yet it is challenging to know which dynamics need to be explored and understood.

***People experience complexity in part as deep entanglement – everything is somehow connected to everything else.*** Many different issues and actors may all be in flux in a particular place at the same time. Their entwined nature means that motivations and agendas may be obscured and hard to manage.

Conversations about national development frequently take place in contested spaces: between the executive and an emerging legislature, between the national capital and the regions, or between government and civil society. A conversation may appear to be about a relatively technical policy matter, but a decision may favour a particular group or outcome on another matter entirely, delaying or complicating action.

Similar dynamics may play out at a local level. A company may find resistance, for example, to the establishment of a distribution network relying on motorcycle delivery. Is this because a local leader is not yet ready to work across ethnic groups who were not so long ago on opposite sides of an armed conflict? Or is it because the motorcycle drivers will be young men, shifting the balance of power in the community away from traditional elders? While we may have come to the table to “talk business,” for others many additional agendas may be at play.

***People may experience developments that increase complexity as positive rather than negative.*** Emerging markets will be the principle source of global population growth and economic expansion in the coming decades. Africa, for example, is expected to nearly double its share of the world population over the next generation.

While rapid economic expansion and population growth contribute to complexity, these developments contribute to tangible improvements in people's lives in many places. Explosive urbanisation may pose many challenges, for example, but people typically experience a much higher level of public services in dense urban centres than in rural areas.

As countries grow, people in complex markets also experience the benefits of being seen not only as sources of labour or raw materials, but as markets whose consumer needs should be met as their incomes grow. Even as it complicates trade relations, the so-called BRICS countries – Brazil, Russia, India, China, and South Africa – and the “Group of 20” in the next tier of major economies experience growing confidence. Both governments and their people may experience complexity as the by-product of positive developments.

*“Complex markets can be turbulent. But there is also a lot of background noise. You always need to have an ear to the ground – is this something that needs to be dealt with? ”*

– Country Manager, telecommunications, Former Soviet Union

**People may embrace complexity as a solution to significant challenges.** Our instinct in the face of significant complexity may be to compartmentalise issues or attempt to insulate them from the broader environment; our business training in particular may lead us to disaggregate problems. This leads companies to build high fences around their operations, for example, trying to deal with security on as narrow a basis as possible.

Yet communities may find that increased complexity allows them to resolve otherwise intractable conflicts. In many parts of Africa, for example, nomadic pastoralists share land on a seasonal basis with agricultural communities. Committees meet to work out in detail the specific arrangements in a given year for timing, paths that may be used, and even whether weapons may be carried. Attempts to “simplify” land tenure with exclusive property rights have in some cases increased conflict in the face of water or land scarcity.

Companies as well may make *additional* linkages in order to cope with complexity. In the Scania case story (page 86), for example, we see the company in Colombia accepting the added complexity of integrating at-risk youth within the company as part of that country’s transition to greater stability and development. Greater security could only be achieved by linking rather than disaggregating problems.

# 1.2 How does the complex environment shape daily life?

*As company leaders we must be aware of the society around us. Yet social hierarchies that limit contact and communication across classes may make many people's daily lives less visible to us. Describing what people want may be straightforward in general terms: freedom from fear, respect by and solidarity with others, control over their lives, and a certain level of basic material satisfaction. We may all the same need to work hard to understand the specifics of how people struggle and what their priorities are for change. We also do not have a complete picture until we see how people find resilience in the face of poverty, violence or disaster rooted in their households and communities.*

**The complex environment is part of the daily life of people.** Many may be preoccupied with ensuring the most basic human needs: food, water, or sleep, as well as the safety of the family and its health or housing. Energy must focus on securing clean water, avoiding violence or abuse, obtaining access to education and health care, securing transportation, and finding a job. Navigating public bureaucracies implicated in these efforts can be a job in itself, particularly for a person without status or education.

As people seek to meet basic needs, equally preoccupying may be accompanying feelings of insecurity, fear, dependency, shame, lack of respect, marginalisation or powerlessness. Though perhaps not expressed in these words, people across continents and cultures express a need and desire for love and belonging, esteem and self-realisation and participation in the decisions that affect them.

Company employees may be closer to these realities than managers imagine. Young people whose families made sacrifices for education may advance quickly even as their parents remain illiterate. As one manager noted, “*Our new service technicians can now aspire to own a house and a car, though they may never have seen an office coffee machine.*” People in cities with strong rural roots may also find themselves living between two worlds.

**Despite real difficulties, life continues.** People do not typically despair. Only in extreme situations do people entirely lack the capacity to cope. People celebrate births and marriages and commemorate the dead. They go to the market and connect with others. They fix as best as possible what does not work. People learn to navigate the dynamics of a complex environment even if they cannot change them.

People persevere even under extreme duress. Fleeing refugees may give the impression of chaos. Rather, life changes under the influence of violence. Those who bear the arms take on new roles, positions, and control over economic assets. Others set up markets or rent out land to displaced families. Social and economic capital is destroyed, but new social and economic relations are also formed. Similar dynamics underline less dramatic but more common crises in personal and community life.

These realities and strategies for addressing them shape the decisions people make on a daily basis. A human resources manager may question the motivations of employees in wrongful discharge mediations who always seem to ask for money rather than reinstatement. Yet that cash payment may represent a school fee paid or medicine purchased today, and reinstatement to the company only an uncertain future.

*“ You need to find the common sense in a difficult situation. Start from the premise that it is a natural human tendency to live, to work, to strive: in the end, to hope. ”*

– *Regional Manager, industrial goods & services, emerging & frontier markets*

**The household and community are the central spaces for livelihood strategies.** The household is typically integrated in a system of broader family, clan or social relations. These may act as the only support structure in the case of illness, drought, flooding, or other shocks or stresses. The community whether defined as neighbourhood, *barrio*, village or network of kin and family is often the foundation for securing food, shelter and employment. In cases of a large diaspora, the community can even have transnational characteristics.

The situation, however, may be far from idyllic. Support mechanisms at the household and community level can be severely affected by prolonged effects of poverty, alcohol abuse, violence, armed conflict, or rural-urban migration. Yet these may still be the best available social safety net. People living under difficult circumstances may through experience have no reason to trust government or the private sector.

People's experience of powerful institutions may be mostly broken promises. One government official noted that community members in his region came to constituent meetings not because they believe anything politicians say, but to gather intelligence on whether something bad might be happening. In many parts of the world a shopkeeper sees the police and may cringe. Basic assumptions about state-society and company-society relations may not translate well from developed to more complex environments.

**Different segments of society experience life challenges very differently.** While basic human wants may be similar across contexts, the needs and challenges people experience may be very different. People living in rural areas, for example, may speak about poverty and ill-being in terms of food security or lack of work, money, and assets. They may also emphasise the vulnerability of the old, disabled, female-headed households and those living isolated from social networks. In contrast, people living in the city may focus much more on their immediate living environment as a source of poverty and stress. Key factors may be crowded housing, inappropriate or inadequate sanitation, lack of access to water, traffic and pollution, dangerous streets, and violence.

There is a significant imbalance between the experience of poverty between men and women. Men tend to control the few productive and valuable assets in the household, including livestock, machine tools, land and radios. Women tend to control assets within

the household, including furniture, utensils and food. A high level of dependence of women on men has been an explanatory factor for domestic violence and sexual abuse. From this standpoint the context of poverty is not only local, but personal.

**What people want is often quite practical.** People who are more removed from the struggles of daily existence may think in abstract terms such as “quality of life” or “peace.” For people less insulated from the challenges of complex environments, these concepts have meaning but will likely be understood in concrete terms.

Peace may mean shopping at the market without fear of bombings, sending children to school without thought of sexual abuse, or visiting relatives in the neighbouring town without being aggressed on the way. Quality of life may mean a steady job and being able to speak up and be heard in decisions about life in the community.

These practical desires shape what people see as important. Control of land will almost always be a hot-button issue, as it is broadly understood as a source of food production, housing, and material accumulation. Agendas of importance to elites such as “rule of law,” however, may have little in common with how people think about issues of respect, equity, non-discrimination, or justice. People’s experience may be that these are not upheld through state lawmaking and enforcement, but rather by elders, communities, or even individual improvement.

*“There is a huge divide between the capital and the countryside. Daily life and basic business processes will be very different. You must take time to understand what is actually going on.”*

– Country Manager, industrial goods & services, Former Soviet Union

**What is on the minds of people and communities can be hard for us to access.** Rich and poor can live in close proximity without their daily lives intersecting. Different health clinics and schools serve them even in the same neighbourhood. The apparent diversity seen in a marketplace excludes those without disposable income who in any case may be chased away by security guards.

Direct communication is typically mediated by social hierarchies. The poor may be highly attentive to what they believe a powerful person wants to hear. A long-standing relationship with a driver or a friendly relationship with an employee whose mother lives in a rural area may not be enough to break through such barriers, often built on painful experience of abrupt dismissals or lack of assistance for people who fall out of favour.

One manager noted the need to “resist the urge to become an expert within a week, which largely happens by talking with like-minded people.” Anthropologists spend years focused on the workings and relationships of one particular community and still admit knowledge gaps. Even as a manager honestly works to understand what daily life is like for people and what their problems and visions for the future may be, it may be safe to assume that there remain many “unknown unknowns” to uncover.



#### COMPANY TO COMPANY

## How do we manage political risk?

### AES Corporation in Cameroon

The AES Corporation in 2001 acquired 51% of the shares of SONEL, the state-owned power company in Cameroon. AES-SONEL is now Cameroon's fifth largest company with a monopoly on the generation, transmission, and distribution of electricity in the country for a 20-year concession period. To bring an international investor like AES on board, the government agreed as part of the deal to annual tariff adjustments that ensure a reasonable rate of return.

The annual tariff proposal submitted in October 2009 affected a very small percentage of residential customers and had been supported by consumer associations. Increased operating expenses, continued investment in infrastructure and payment of interest on the debt raised for that purpose from lenders including European and African development banks justified the additional revenues. Government faced political pressure over significant rising prices for food and other consumer goods, however, and asked that electricity tariffs be frozen at 2008 levels.

As it became clearer that the tariff adjustment was in jeopardy, AES faced the prospect of insufficient cash to maintain current operations and a potential default on its debt obligations. Lenders demanded confirmation for their positions before accepting additional drawing under the AES-SONEL infrastructure investment programme. The construction of a new gas-fuelled power plant – to be financed roughly by the same lender group – suffered major delays as lenders became concerned about the underlying health of AES-SONEL.

While AES had a legal agreement, a strong financial rationale, and an imperative to maintain electrical service for the entire country on its side, it realised that only government action could resolve the impasse. AES entered a strict cash preservation mode to allow the breathing room to work out a solution. The company's most important objective was to provide the government with sufficient space and time to come to terms with an answer.

AES rallied its key stakeholders, including development bank lenders and those within government with whom AES had built trust over the years as a strong partner and a good corporate citizen. The focus was not on forcing government to comply with their commitments as set out in the concession agreement. Rather, AES built conversations around areas of mutual concern such as future investment and the need to provide safe, reliable and affordable energy to the people of Cameroon. It stressed the value of open dialogue and emphasised the importance of strong collaboration amongst all stakeholders.

The Cameroonian government did not implement the tariff adjustment as originally requested. After a patient process, however, the government at the end of 2010 provided alternate compensation for 2010 and 2011. AES found that the experience resulted in a closer and better relationship with the Cameroonian government. Among many lessons, AES saw that political risk management entails being the “company worth saving” when government faces difficult political and policy choices.

ADAPTED FROM A FLETCHER SCHOOL CENTER FOR EMERGING MARKET ENTERPRISES REFLECTION FROM PRACTICE BY ANDREW M. VESEY OF THE AES CORPORATION.

## 1.3 What are people's stories?

*Managers are often trained to get to the truth of the matter. An environmental engineer must establish where unsafe levels of arsenic in drinking water are coming from; a human resources manager is called on to judge competing versions of events. Yet in complex environments, there may be great value in simply listening to people's different stories. They can teach us how people see themselves and others; what divides them and what connects them; how different pieces of a system may fit together; and even how some people may be manipulating stories to achieve certain goals.*

**Stories are one way people make sense of the complex environment around them.** A story can be more formal, such as a historical tale about the origins of a people taught in schools. It can be a recurring drama in the newspaper or the subject of regular gossip at the market. It can be simply what one person highlights from among an intricate chain of events.

**“**You trust people unless they give you a reason not to. Their experience tells them that no one can be trusted until they prove otherwise. Building trust can take a year or more of regular contact. And of course any untrustworthiness on your part will close the door.**”**

– Country Manager, industrial goods & services, Asia

By listening carefully to stories – not only their content, but where they start and stop, who and what they include and leave out, or how different tellings of the same story do or don't intersect – we may learn an enormous amount about how people experience the world around them and prepare to respond to its complex dynamics and developments.

There are most always different versions of a story. One may be that the police fired on striking garment workers. Another might be that union leaders were looking for a fight. Still another might be that the factory was built on stolen land. Each story may be true, but each emphasises different emotions, intentions, responsibility, and interconnectedness with or separateness from other stories. Particularly as outsiders it is not our role to judge people's stories or seek one “true” story, but rather to listen and learn from them all.

**Individuals and groups have stories about belonging, identity, and grievance which are often intricately related.** The stories of who “I” am, who “we” are, and who “you” may be are inherently contextual and the manifestation of a particular moment in time. They sound different in Zambia from rural Colombia, and in Geneva from Singapore.

People's stories of identity and belonging may include a deep sense of grievance – over land taken or social bonds broken, for example – particularly when legacies of violence or maltreatment are still felt. Where “we” and “they” are still part of the same polity, conflict arises not only over the perceived injustices themselves – who did what wrongs to whom – but over their contemporary importance – whether they should be left in the past or whether they still demand acknowledgment and redress.

The significance of injustices will differ across groups. For an indigenous people that places nature at the centre of its stories, an open pit mine can mean irreparable harm to a fundamental element of belonging. Such systems part ways fundamentally with more utilitarian attitudes, where the justice of land taking might turn on compensation. People coming from different worlds can easily misjudge others' motives and intensity of feeling.

### ***Stories tell us about what divides and connects people and groups.***

Some stories highlight “connectors,” elements common across subgroups such as inter-marriage, mutual concerns, public spaces, and roads or bridges. Connectors are particularly emphasised in cosmopolitan identities that are based on an inclusive morality, shared economic relationships and joint political structures. Markets, sports events or national festivals can all be important connectors.

Some stories emphasise “dividers,” the elements that order people into exclusive sub-groups. They create lines between “us” and “them” on the basis of who we are (for example, age or ethnicity), what we have (for example, land or material belongings), and what we do (for example, whether or not we observe religious rituals).

Stories of separateness are often entangled in the roots of conflict and the challenges of governance. Indeed the mismatch between social identity and political identity seems to be a major contributing factor to the experience of complexity. It runs through discussions of tribalism, racism, classism, inter-ethnic tensions, cultures of obligation, or even the clash of civilisations. But dividers and connectors exist at the same time. They also change over time. People's stories are tools for reinforcing or creating dividers and connectors in a society.

***Stories alert us to the dynamics of conflict.*** Long before a conflict becomes overt or violent, evolving stories warn us about its escalation. Stories may begin with clashing histories or positions. These contribute to polarised thinking and feeling. Stories may underline how one side is rational and the other simply wrong. The “us” and “them” becomes increasingly entrenched. This is a common feature in places marked by ethnic or nationalistic narratives, but also where management and labour, for example, have long histories of animosity.

Conflict escalates when a change in discourse is translated into action. Reaching out across the conflict divide is actively discouraged while pressure for conformity increases. In the corporate context, both labour and management representatives seen to be seeking cooperation with the other may be characterised as traitors. Stereotypes grow and negative depictions of the other become the norm.

As provocations occur and people lose face, stories begin to justify threats and ultimatums and even the use of overt violence as an appropriate response. Stories may change again to justify the destruction of the other. Where systems to proactively identify and manage conflict appropriately are lacking, such stories can be powerful drivers of conflict escalation.

**Stories are used to create and maintain power.** Governments and their leaders may be particularly adept at deploying foundation myths of nations and peoples. In group dynamics, such stories are a critical factor for unity and discipline. They motivate people to join organisations and remain committed to them. Even when a leader's true motives lie elsewhere, the leader will use stories of historical grievance to justify and rally support behind his or her actions. Such stories and their use are instrumental.

Because such stories of inter-ethnic conflict are inherently strong, they may be repeated without much reflection, for example, as a simple story of long-standing inter-religious or inter-ethnic tensions suddenly breaking out in violence. More nuanced observers, however, may note that the army made use of the conflict to move people off lands that were desired by powerful people for development of commercial agriculture or the expansion of cities.

Foreign companies in particular may find themselves involuntarily becoming characters in nationalist stories. In the Cadbury case (page 175), the company was subject to anti-American protests – even though at the time it had no US connection. It seems reasonably clear that the story wrapped in nationalism being told was more about electioneering than about any deep-seated opposition to a company with a long Indian presence.

*“It is important to understand the stories and business experiences of others. It will help you predict and understand their reactions.”*

– Country Manager, engineering services, Middle East & North Africa

**People can maintain multiple stories.** A multiplicity of stories is part of a complex and evolving dynamic. A local politician can rage against a particular group, but still make informal business deals with its members. His story of conflict coexisting with his story of cooperation may not even seem incongruous to him. Inconsistencies can also emerge as stories change. In situations of conflict escalation, stories that emphasise common bonds or connectors between groups become obscure or irrelevant, while those emphasising divisions emerge more prominently. As conflicts de-escalate the reverse is true. In management terms, one needs a longitudinal view to make sense of the story.

Stories may also be in competition with each other. They will grow or diminish in importance depending on where and how often they are told. Stories told widely on radio and television in Rwanda and Bosnia-Herzegovina played an important role in dividing communities and instigating violence. Leading up to the 2013 elections in Kenya, on the other hand, local radio de-escalated the risk of violence by diffusing rumours about political betrayals and election rigging. Particularly in environments with few competing channels for storytelling, radio is a particularly critical implement. But the broader lesson is that stories serve to shape as well as explain society. All should be listened to.

# 1.4 What are the various sources of power and authority?

*We may be inclined to think about government as a relatively coherent system. We want to know what responsibilities are vested at which level, and how effectively it delivers. The governance of complex environments may be more complicated, typically characterised by overlapping and co-existing forms of authority. The understandings we must develop are therefore more nuanced: which institutions with what sources of authority are competing with whom in this corner of the country or part of the city for which purpose. When we do so we begin to better understand political conflicts in society, but also how informal systems that co-exist with formal state systems increase resilience.*

## THE MESSAGE

### **Official governments often compete for authority with other actors.**

It may at first be novel to think of governments competing in a social marketplace for legitimacy and support. Yet in a complex environment government authority co-exists and overlaps with other social institutions claiming the right to speak for communities, make policy, enforce decisions and control economic resources.

The legitimacy of these roles for private and political networks, religious institutions, customary authorities, or even local militias, guerrilla armies, and gangs may be based on tradition, ability to deliver services, or simply effective control. Different regions of the country or even neighbourhoods in the capital may thus have varying degrees of autonomy and multiple forms of governance.

*“It helps to figure out which people have influence beyond their job title. People have personal networks that accord them more status and authority than those higher up on the organisational chart.”*

– Country Manager, telecommunications, Middle East & North Africa

Local communities are often the victims of wrangling for power and authority. They may be punished by government actors one month for collaboration with rebel groups and by the rebel groups the next month when control again changes hand. But they may also be beneficiaries when there is competition for legitimacy. In Afghanistan the Taliban notably revised its strategy in response to Coalition support for better governance. They worked to refurbish their image and stressed relationship-building with local elders and villagers by helping resolve disputes or purchasing rather than seizing supplies.

***There is never a total lack of governance, but rather a lack of effective governance by the state.*** We may in shorthand be tempted to say that “there is no government” when formal state institutions are absent or ineffective. Yet the absence of government institutions should not be mistaken for the absence of governance mechanisms or public service delivery. In a rural area where there are no state courts, justice may be delivered through a chieftaincy system that has endured for centuries. In an urban township where the police are unwilling or unable to act, newly created neighbourhood committees may chase down suspects, try them in informal courts, exact fines, and mete out corporal punishment. Governance simply occurs in different forms.

Successfully providing some important function, a variety of groups become the most legitimate source of authority within their domain. In the Middle East, the strength of religious schools and religiously inspired political movements are sometimes attributed to the lack of inclusiveness of state education and social services. In Central America gangs are not just a source of violence and extortion but also a source of belonging, jobs, and protection for their members. Particularly if the state is seen to have failed in its task there may be no one government, but rather a mosaic of different governing institutions for different purposes.

*“Tensions between government in the national capital and government in the regions is a fact of life. There are always power struggles, and knowing how decisions are in fact made is a constant challenge.”*

– Country Manager, agribusiness, Asia

***The role of the state may be contested among communities, the government, and international actors.*** While outsiders may assume that the answer to a country’s problems is a stronger state, this may be less obvious locally. For many people the government can be something happening very far away. Government representatives can provoke fear in people who remember past abuse and injustice. Much easier to trust or at least acknowledge are local institutions that have a direct bearing on their lives through the provision of security or schooling for children. People may resist a perceived intrusion of the formal state into the domain of admittedly imperfect yet functioning institutions.

The state for its part will claim to be the sole legitimate authority within its officially defined territory. This may cause challenges for a company, as the government may try to limit and control interactions with traditional authorities, community institutions, or other non-state actors. International actors tend to share this state bias. It is often understood as the safe “default approach” given international legal frameworks for managing relations. But this may confound the normative question of who they think the government should be with the factual question of who the government actually is in a particular time and place. International actors may treat non-state institutions at best as transitional actors towards a stronger central state, whether or not this is the view of local people.

***Where there is competition for legitimacy, local power brokers can be particularly influential.*** Where rules are murky and government institutions distant,

people who can successfully navigate the complex political landscape may take on locally influential roles. They may use clan or kinship relations to manage risk and extend their sway within the community. They work to balance resources and relationships in ways that allow them to grant or withhold valuable benefits, such as jobs or membership in a political party that offers a chance for social advancement. By offering protection and access to services they further grow their “client” support. Indeed an employee of the company may feel primary loyalty to such a power broker, extending his network into company operations.

From the most positive perspective these local power brokers may link the central government and distant elites to local needs. This may be as direct as communicating what community benefits to prioritise in order to secure desired votes. They may have broad and diverse networks of reciprocal obligation from which coalitions for action can be formed. More negatively they may hijack what are meant to be public benefits and services for personal gain and influence. Whatever their role, we often need to look beyond formal structures to, as one manager noted, *“discover who is knowledgeable and influential. They may be locally important people, not tied to any organisational role.”*

***The overlapping nature of political authority can result in conflict and violence, but also in opportunistic alliances.*** As long as the state lacks the will or resources to act on its claim to exclusive legitimate control over territory and people, conflict can remain latent. Actors who may be both in effective control and have a high degree of popular acceptance continue in power in regions or neighbourhoods. Conflicts become manifest if the state pushes for the recapture of territory and influence to the exclusion of others. Violence in Rio de Janeiro, Kingston, and Ciudad Juarez has followed these dynamics when the state reasserted control.

Opportunistic alliances can still emerge among competing groups on the basis of shared interests. Police and local gangs may share intelligence on foreign organised crime groups who threaten them both. Because the struggle for power and legitimacy requires getting things done, honest brokers can emerge from both inside and outside the system. The first “days of tranquillity” UNICEF negotiated in the civil war of El Salvador in 1985 allowed 250,000 children to be immunised over a three-day ceasefire. With all parties wanting to be the standard-bearers for a better future, this was repeated every year for six years until the civil war ended. Deal-making and compromise can emerge in surprising forms.

***The resilience of people and societies is rooted in informal systems that can co-exist with formal state systems.*** Most every government has a civil defence system. In the aftermath of war there may be an office of peace and reconciliation. But understaffed and poorly resourced in complex environments, these official mechanisms may be overwhelmed in any real crisis. Other social institutions may step in to provide relief services or intervene before conflict escalates to violence. Informal networks can help form coalitions capable of mobilising local action across diverse stakeholder groups. The story of multiple forms of governance is not always one of competition.

Yet informal networks and social institutions are not immune to failure. An arrangement effective in settling land disputes among neighbours may fail when large-scale illegal timber clearing presents a conflict beyond its capability to manage. The better linked a system can be horizontally across different parts of the community and vertically to actors at regional or national levels the more resilient it may prove. Hybrid institutions endorsed by but operating somewhat independently from government – such as Peace Commissions that convene diverse stakeholders to address risks of violence – may be more able to downplay questions of power and legitimacy to take pragmatic action in complex environments.



#### COMPANY TO COMPANY

## How do we connect to low-income consumers?

### Sun Microsystems in emerging markets

*Facing flat sales and decreasing profits, Sun Microsystems needed to capitalise on undefined but rapidly evolving opportunities at the so-called “base of the pyramid.” New relationships based on reciprocal exchanges of insight, information and expertise rather than on corporate social responsibility created new opportunities.*

The early 2000s were difficult for Sun Microsystems, a Silicon Valley-based software and hardware maker. Sun had earned a reputation for innovation with the Java platform, the web-programming language that had redefined the way websites and mobile phones were designed and used. Its x64 server line and Solaris operating system were mainstays for large data centres and corporate mainframes. Still the company struggled to offset a steady decline in its high-end server business. With flat sales and decreasing profits, by 2008 its stock had declined significantly and the company laid off thousands of employees.

These challenges required new focus on Sun's emerging markets. Four billion low-income consumers at the so-called "base of the pyramid" were Sun's future end-user base and already a \$5 trillion market. As this population increased its disposable income, their societies would require drastically different banking, telecommunications, and consumer goods and services. Sun would need to capitalise on these undefined but rapidly evolving opportunities.

As Sun looked more intently, it found transformative forces that clarified its focus. New information, communications and business technology models were evolving to serve low-income consumers based on non-Western patterns, structures and expectations. As information and communications technology adoption and growth boomed in developing countries, however, back-end technology requirements were neglected. With exponential mobile phone adoption, for example, much of the technology investment was on applications, user interfaces and new distribution models. The supporting ecosystem of vendors, municipal agencies, integrators, infrastructure companies and service providers demanded information infrastructure at scale. Similarly, NGO microfinance firms and others would require new information technology structures that facilitated large volumes, low cost, and mobility. These all were markets where Sun could potentially provide solutions.

Yet Sun's management needed to admit that it knew far too little about economic trends and social dynamics relevant to low-income consumers. Sun's successful emerging market business served a client base of large multinational corporations, large government contracts and international organisations with a focus on enterprise solutions. Its main relationships in emerging markets were the analogous media, analysts and internal customers on whom it relied in the west. The perception among some executives that base of the pyramid issues were the domain of Corporate Social Responsibility was no help. "Investment in BOP" for them consisted of foundation grants, product giveaways and employee volunteer programmes. Focused on that segment of emerging markets that looked most like western markets, the idea that low-income consumers were part of the company's future was hard for some to conceptualise.

Sun's leaders needed substantially better understanding of ecosystems created to serve low-income consumers as well as of the perceptions, motivations and plans of the actors that created and led them. If Sun was to learn about, invest in and participate with new customers and service providers, it would need to build a new set of relationships with NGOs, innovation labs and incubators, start-up clusters, entrepreneurial hubs, universities, and government agencies. Emerging markets and their evolving segments became a priority for Sun's new Global Influencer Relations function and the Sun leadership it supported. Both to support inward learning and insight and to maximise outward influence, executive outreach needed to become more strategic and long-term.

To earn its seat in forums with key influentials, Sun had to move away from Corporate Social Responsibility as the focus of its engagement vis-à-vis the poor. Thought leaders saw CSR as a lowest common denominator business activity. Sun learned that expectations and requirements by influencers, decision-makers and customers in the low-income consumer space were much higher. They included market-driven and civic-oriented solutions, executive-level engagements and exchange, and sustainable practices.

Sun abandoned internal reference to the "base of the pyramid" in favour of discussion of "emerging market segments." It prioritised a set of issues of particular relevance to both the company and its prospective conversation partners: open-source software, innovation development, mobility and data growth, education, eco-responsibility, shifting global sales models and the citizen engineer. In China, Sun brought together leading computer scientists

from the universities of Fudan, Shanghai and Tsinghua around mutual interests in market trends. In India, Sun leaders developed relationships with business executives, scientists, NGOs and institutes through discussions on innovation and economic growth. Sun leaders gained partners who could help them better understand business opportunities for emerging segments, lay out technology road maps, and develop longer-term research agendas.

Ensuring that these relationships continue to generate insight and result in new opportunities for Sun requires a structured stewardship process. Sun allocates relationship managers and ensures regular interaction with key influentials. Business cases and value propositions for both Sun and its partners are crafted and regularly reviewed to ensure mutual benefit. Sun's strategic leader engagement thereby results in a range of outcomes including economic development, joint research and development, product placement in a research context, and academic collaboration. Business benefits include brand and reputation enhancement, demand creation and market opportunity.

Sun's experience shows that even a Fortune 200 corporation with a global brand and a strong position in emerging markets can have a blind spot for new market segments. New leader attitudes opened their eyes to whole business and civic ecosystems evolving at the local, regional and national level in developing countries that had no western counterparts. New leader behaviours led them to identify and reach out to influential stakeholders distinctive from the ones they worked with in more developed markets. They developed relationships related to low-income consumers based not on CSR, but on reciprocal exchanges of insight, information and expertise. These created new opportunities for regional companies, local business, non-profit organisations and individuals – and for Sun.

ADAPTED FROM A FLETCHER SCHOOL CENTER FOR EMERGING MARKET ENTERPRISES REFLECTION FROM PRACTICE BY STEPHEN GOODMAN OF SUN MICROSYSTEMS WITH NICHOLAS BRUCH OF THE FLETCHER SCHOOL.

# 1.5 How do things get done?

*Familiar in expatriate and elite circles are conversations about what is broken: traffic, bureaucracies, the electrical grid, or the quality of goods and services produced locally. Yet by seeking the counter-perspective we can be rewarded with great insight. Our picture of a complex environment is not complete until we can explain the processes, mechanisms and dynamics by which children arrive on time at school, informal taxi drivers keep their vans on the road, and bustling commercial centres thrive in the middle of poor townships. We begin to see the strengths on which the society is built and from which the future can grow.*

**Things get done through trust networks – confidence based on relationships among people.** In environments characterised by unpredictability, trusted people are a first port of call for any action. From fixing a broken car to finding a business partner in an unknown city, people will typically rely on friends or colleagues for advice and introductions. Knowing the garage belongs to a trusted person's cousin may be more important than knowledge about his skills. Trust networks represent a reprieve from fear and disappointment: I trust a particular supplier to deliver the goods in time; I trust my friend to bring me undiluted medication when I am sick; I trust my relative to accompany my child to school. Because trust is typically reciprocally earned, incentives may be strong not to stray from well-established relationships that have proven reliable.

If we come from a society where the general rule is to trust unless shown a good reason not to, this dynamic may sometimes seem extreme. In many environments with a history of violence or significant volatility, however, trust is one of the first victims. Authoritarian government destroys the trust between state and people, civil strife destroys trust between communities, or domestic violence destroys trust between husband and wife. While it is barely conceivable that one would order heavy equipment in Europe and receive instead a container full of sand, this is the lesson of experience in many places. The general rule in the complex environment is likely that one does not trust until the risks associated with trusting are well-understood.

**Things get done through obligation networks – bonds or duties that tie individuals or groups together.** Faith and family networks may be particularly strong. People who share a common spiritual link will care for a needy church member, even though they themselves may be very poor. One international staff member was surprised to hear from a local colleague that three nieces had arrived unannounced over the weekend from a far-away city. Her grandmother had sent them to live with her. The local colleague was not surprised that her grandmother had not called; the bonds of family obligation made it clear to both of them that there was nothing to discuss or be decided. Similar to trust, obligation networks help make action more predictable and allow things to get done.

In political terms, obligation networks find their expression in patronage systems. Once a whole clan decides on the member to be supported to achieve senior public office, there

are expectations of paybacks to group members. Distribution of paybacks can occur through political appointments or employment opportunities, through public procurement contracts, or through operating licences or building permits. Access to public office or economic opportunities is not defined by merit or competition, but by relationship and trust. Given the common nature of patronage, societies often expect that political leaders will use patronage to structure their power and reward followers. As a result, people adjust to patronage politics as an informal system they know and can participate in, while politics through formal state institutions may remain something distant and mistrusted.

*“‘Tribalism’ is a negative term to describe the positive binding commitments people feel to a particular community. When in conflict, community bonds are stronger than legal and national bonds.”*

– Community Relations Manager, extractives industry, Asia

**Things get done as a result of aligned interests – a shared need to achieve something.** Ensuring that the cattle trade functions in Somalia is such an important interest that otherwise bitterly opposed clans collaborate with each other. The aligned interest of business, political and local leaders in Kenya to prevent violence ensured a relatively undisrupted – yet not flawless – election in 2013. Northern and Southern Irish business confederations realised that economic development was contingent upon the end of the conflict. They henceforth called for greater integration of Northern Ireland’s economy into the Irish and European economy and played a critical part in the peace process leading to the Good Friday Agreement. Parties can work together not out of trust but because each understands the other’s fundamental interests well enough to predict their behaviour.

What at the outset seem like irreconcilable differences become bridgeable when interests take on a larger strategic significance. In Sudan, Chinese companies recognised their overarching commercial interest in stability as part of the negotiations leading to the 2004 Wealth Sharing Agreement between the Republic of Sudan and Southern Sudan. China accepted shifting payment for oil to financial transfers, thereby ending payment through the export of consumer goods which it had previously demanded. China realized that an overall peace agreement was more valuable to its political and commercial interests than insisting on the continuation of oil-for-consumer goods exchanges.

**Things get done with pragmatism – a focus on the practical and do-able.** Believing problems are too big to be solved and current needs too immediate to be ignored, pragmatism becomes an attitude for getting things done. Pragmatism often means deal-making, constant negotiation and informal arrangements as pervasive interaction patterns. While our attitude may be that “a deal is a deal,” the local ethos may be that contexts are fluid and renegotiation to be expected. We may need to put aside our surprise when someone suggests that the deal we reached in good faith is all the same no longer applicable.

Attitudes about pragmatism may inform what is understood as corruption in a local context. If payments are made for a service that is delivered reliably in a complex environment, such payments may be seen as little different from a tax or fee for services rendered. “Corruption”

may only be understood as excess payment demanded, or incidences where payments are made but the service paid for is not delivered. While millions paid to the wife of the president for a major contract may be seen as unethical, paying a “fixer” to navigate through a bureaucracy to obtain a passport may be considered acceptable.

*“One of the smartest things you can do is ask about the way things work now: why and how. You’re much less likely to break something as you try to fix it.”*

– Information Technology Manager, consumer durables

**“Pockets of effectiveness” can get things done.** Even in what seems like a chaotic or unstable environment, there are usually some places where things work reasonably well. Townships generally considered too dangerous to visit may have a service to accompany outsiders whose presence is considered important to the community. Elder councils may efficiently and legitimately dispense justice with which the parties willingly comply. Women’s groups successfully mobilise entire districts (including men) to clear the rubbish from the street. Spaces with functioning state or other informal service delivery capacity can exist despite an environment that is broadly ineffective or insecure.

In these cases leadership often plays a critical role. A respected or revered individual may have the relationships or charisma to get things done. The amount of commitment and ingenuity of such individuals can be phenomenal. They are often the invisible ingredients that make water wells work, ensure social cohesion, provide security, and care for the weak and excluded.

Pockets of effectiveness may also require the ability to take a whole-systems view. Tetra Laval’s Bangladeshi milk processing customer (case story, page 158) enabled dramatic increases in dairy production by established dairy hubs. These created a single point of accountability for all aspects of milk production within a defined geographic area, including outreach and husbandry services for small-scale farmers, ensuring adequate supply of quality milk, collection, payment, processing and packaging. Reducing or accounting for interdependencies creates relatively closed systems that can function as islands in the less predictable seas around them.

## 1.6 What are the characteristics of violence?

*Not every complex environment suffers from high levels of violence. Where violence is a defining characteristic of society, however, it is an integral part of its complexity. Particular efforts to understand it are warranted both to mitigate risks to the company, its employees and the communities around it, and to take constructive action where possible. The first step is to understand where violence occurs and the forms that violence takes. The next is to understand the motives for purposefully organised violence and the functions it performs. Once seen in context and more analytically, measureable reductions in violence are achievable through a variety of strategies that have at their core collaborative action.*

**Violence is costly.** Most tangible are the direct pain, suffering, or trauma of people when they or their loved ones are attacked or killed. People further suffer from violence when they feel too insecure to move freely, or have to accept heightened personal risk to provide for their families. Violence can contribute to the breakdown of social relations and can result in a culture of violence across generations. It may disrupt delivery of and access to education, health and other social services, as well as business and commerce. It can also undermine governance, fuel illicit economies, and feed political exclusion. Where violence is high, development is likely impossible.

*“Guerrillas are a risk to government soldiers. But they are not necessarily a risk to company employees. Because we do a job useful to everyone, we are safe.”*

– Country Manager, telecommunications, Latin America

Violence also has direct costs for business. Small retail businesses are the most vulnerable to the financial and psychological costs of violence. Crime victimization surveys in Jamaica have shown that smaller companies pay a higher share of their revenues (17%) for security in comparison to medium-sized (7.6%) and large companies (0.7%). In particularly vulnerable sectors, large company costs can be much higher: oil firms in Algeria have been estimated to pay 9% of their operations budgets for security.

**Violence takes many forms.** Globally more than 50,000 people die in organised armed conflicts, political violence and terrorism each year. Roughly ten times as many die from violent crime and interpersonal violence. Many important manifestations of violence

frequently go unrecognised or under-reported, especially in the household, against women and youth, and if violence does not result in death.

Individuals and communities may experience as violence their exclusion from what they need to live and prosper. They may therefore label and respond to as violence diversion of water from their fields to a commercial farm or government's failure to deliver basic medical services. While the contours of such "structural violence" may be debated, the links among inequality, limited opportunity, deprivation and violence are well-established.

Violence falls disproportionately on the poor and is associated with a variety of risk factors. Societies emerging from armed conflict are particularly prone to high levels of violence. Socio-political conflict and violent crime are increasingly linked. Armed violence escalates in rapidly urbanising cities and towns. All forms of armed violence are often accompanied by sexual violence against women, not only in conditions of war.

**Violence has a purpose.** Motivations may be psychological, political, social, or economic, but violence is the result of purposefully organised actions. Facing a close election, a local politician may hand out "scotch and stones" to a loyal youth group to keep opposition voters at home. Violence against a company may be motivated by a desire to extract benefits, whether a larger community investment fund or a contract for protection services. At the personal level, armed violence has been associated with attempts to increase status or wealth or to feed feelings of impunity, excitement, or self-aggrandisement. At the national level it may be to control natural resources.

Such a functional understanding of violence stands in contrast to frequent depictions of human beings as inevitably violent. Ethnic tensions may make it more likely that a community will turn a blind eye to violence against certain community members or fail to identify the perpetrator. But it does not in and of itself cause violence, any more than football rivalries do. Violence occurs when perpetrators have "motive and opportunity" and are not sufficiently deterred or engaged in more attractive alternatives.

*“Good security is critical. But once all prudent measures are taken, you need to put security in the back of your mind, so as to concentrate on business.”*

– Regional Manager, engineering services, Southwest Asia

**Violence has a strong local dimension.** Global factors help explain the structural context in which violence occurs. These include, for instance, economic shocks, the radicalisation of religious movements, the link between population pressures and migration, natural and man-made disasters, and in some contexts transnational organised crime.

At the national level class divisions, land conflicts, and inter-ethnic tensions create an enabling environment for violence. Yet it may be restricted to specific areas of a country or municipality, in particular marginal and neglected areas such as border areas or city slums. As a managing director observed in a Latin American context, "*Even in an increasingly safe*

*country, you need to accept that there may be real security issues. Coming from a history of violence, there may be pockets of extreme criminality, or still be no-go zones.”*

These contextual factors tell us very little, however, about the trigger of violence in a specific context. Even once a decision has been made to target some business or farm on political grounds, a decision still has to be made about which to target and which to spare. Broader conflicts create opportunities for violent action, whether to settle scores based on personal animosity or to seize a business opportunity. Violence is highly local and often personal.

***Measurable reductions of armed violence are possible.*** Violence dropped over 40% in El Salvador in a matter of months; Medellin achieved a sustainable 90% reduction of violence in the course of 15 years. These outcomes are the result of systematic efforts by a multitude of actors. In El Salvador these involved truce negotiations with two major gangs; in Medellin a systematic multi-dimensional programme led by the mayor’s office. In some countries the use of such approaches is widespread. There are over 200 initiatives in Colombia alone, and almost that many in Brazil.

Decades of practice have shown that targeted investments and development strategies can reduce and prevent armed violence. These efforts are characterised by tremendous diversity, dynamism, entrepreneurship, and social innovation. They are also marked by a high degree of strategic adaptation to context. While often led at the local level (where violence is most directly felt) the connections to national frameworks have been important to make local efforts sustainable, to ensure exchange of best practice, and to develop a joint vision against violence across sectors and institutions.

The diagnosis and analysis of the scope, distribution and dynamics of armed violence is also critical. A response to this challenge has been the establishment of armed violence observatories. They are widely used in Latin America where they collect data and build widespread understanding about the distribution, impact and causes of homicides and crime. Another response has been community policing strategies that gather information about violence trends and perpetrators, while at the same time they work to increase trust between local populations and police services.

***Business can play a meaningful role.*** The involvement of business in armed violence reduction and prevention is reasonably widespread. Companies are most likely to engage around armed violence reduction and prevention when they find they cannot isolate themselves from the effects of armed violence. Small- and medium-sized companies may lack the resources to protect themselves adequately. Businesses with investments in natural resources, agriculture, or infrastructure projects are site-specific. This provides motivation to contribute to efforts that reduce violence.

Business roles are varied. In Mozambique, business paid phone bills and put warring parties on company jets so they could meet; in South Africa, business leaders chaired peace council meetings and provided a more neutral convening space; in Colombia, business helped design community safety programmes and make sense of security conditions. Examples abound from civil war contexts such as Northern Ireland or Sri Lanka, to peace negotiations in South Africa or Sudan, to urban violence settings in Bogotá or Boston.

Experience shows that a company – as much as government or civil society actor – is unlikely to reduce or prevent armed violence on its own. On the other hand, corporate contributions can strengthen multi-stakeholder efforts against violence in a specific context. Reducing and preventing armed violence is an inherently collaborative effort.



#### LEADER TO LEADER

## How do we gain insight?

Leaders reflect that it is necessary to take a keen interest in everything going on around the company: geography, politics, culture, macro- and micro-economic trends, and more. While the company is trying to shape the environment, it is important to remember that other actors are trying to shape the company. The leader must anticipate where government and other actors are going in order to avoid surprise and prepare accordingly.

The task of understanding the environment and the company in that environment is challenging. The expatriate manager of a foreign company may be the last to be told about changes in government strategies and policies that may have important impacts on the business. In some places there is fear of speaking up to people in authority, leaving the country manager in the dark even about things which are widely known by others.

Until they build strong relationships with their local teams, managers say they are on their own in the complex market. The tendency of the local team may be to keep things from expatriate leadership; not maliciously, or unethically, but because they need to live with each other after the outsiders are gone. Managers relate that a first priority is to find the people inside the company who want to drive the business forward. They will be the most willing to raise imminent threats or lost opportunities. They will be the first to let the leader into the club that in the beginning has a closed door.

Managers describe constantly trying to expand their networks. Otherwise they are in the dark about the security situation, political developments, or new laws and regulations, all of which can change quickly. The environment will throw a variety of curve balls, which bring with them a temptation to panic. Fear of the unknown is broken down by regular engagement with a broad and diverse network, leading to clear thinking. Meeting and listening to as many people as possible makes a better leader. It helps the manager monitor the environment, and then assess and manage risk.

For major decisions such as land acquisition or a new factory permit, managers underline the value of consulting with many people, inside and outside the company. As with a GPS, one needs multiple points of reference to be assured of where one stands. It takes work to discover who is knowledgeable and influential. There may be locally important people not tied to any formal organisational role. On the other hand, someone who claims to know everything because he knows the country's leaders must be treated with caution. One has to do one's homework to get good advice. In a company with multiple business units, colleagues from outside the direct line of decision-making may be particularly useful sounding boards.

Managers believe that "risk management" may be understood too narrowly at headquarters and Board levels. There may be insufficient appreciation for how various company actions put its reputation or operations at risk in ways that could take years to recover. Risk consultants typically try to forecast the probability of events happening, rather than helping the company manage in ways that keep them from happening. Managers note that it was more common in the past to have a local advisory board. Many were dismantled in the name of cost-cutting or "getting down to business." But leaders find great value in a sounding board that, in an organised way, provides access to local insight on the environment and how the company is perceived within that environment. The company's local lawyer and accountant are important, but it is helpful to include social perspectives that the country manager wouldn't ordinarily hear.

Managers experience greater latitude to talk with the competition in complex markets than in their home country environments. They won't share real sales numbers or pricing information. But they find they can talk more openly about directions the market is taking, bad and good, that affect the sector or the business climate more generally.

The leader's job is not in the office, they say, and often not in the city. They cannot lead their companies moving from a hotel to their office. Tensions between government in the national capital and government in the regions may be a fact of life. There are always power struggles, and knowing what needs to be considered and how decisions are in fact made is a constant challenge. There may be a huge divide between the capital and the countryside. Daily life and basic business processes may be very different. The manager must live life and be curious, taking time to understand what is actually going on.

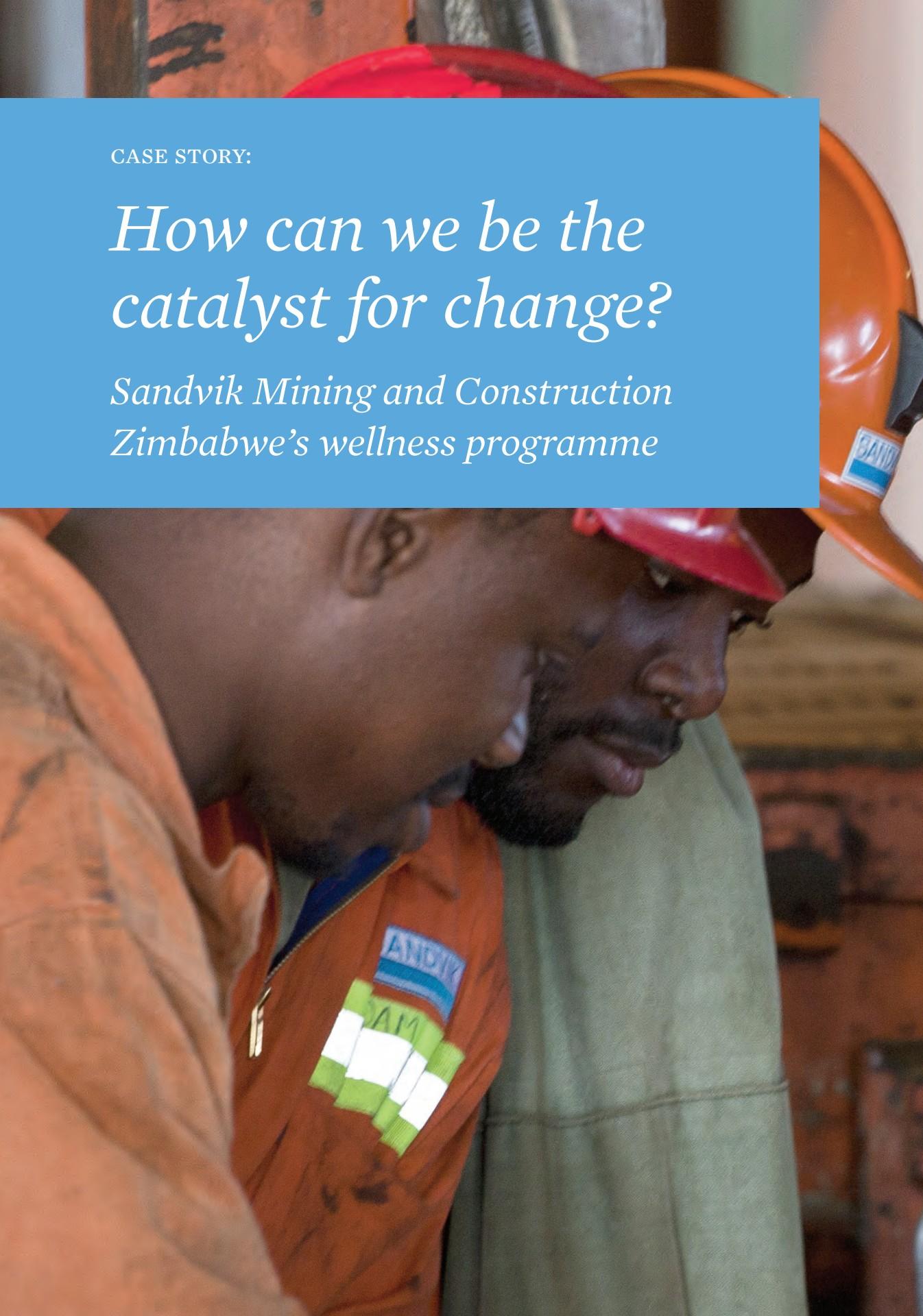
Managers note that there are a host of assessments being done in many difficult environments: by companies, international institutions, staff of the local embassy, development and peacebuilding organisations, local civil society organisations and NGOs, labour organisations, local and regional governments, and others. Making sense of a complex environment is not something managers find they should be doing by themselves. Networks that share information are much better at identifying and managing risk.

A caveat is that it is important to understand the purpose for which information is gathered. In some markets the company will work for or with development agencies on major projects. It is important to remember that development agencies may have rose-coloured glasses. They

have different goals and metrics. The company cannot assume that planning assumptions and data useful to a development agency are equally valid for the company and its business purposes.

Managers learn that they must be constantly alert to small data points that may indicate a more substantial change. Companies probably have the company's daily cash flow history going back years. Sales always fluctuate, so a change in the company's cash position is a signal that something is happening. Violent incidents may always be reported in the press. But one day the manager might note that these are being reported on or responded to differently. Managers say that any change that appears unusual – that makes them think that there might be events occurring they do not understand – should attract their attention and further inquiry.

In the end, managers find that they need to develop their own perspective. People both locally and in headquarters may get excited by things that are not important, or may miss things that are important to the business. Much is unclear and rumours abound, whether related to local politics or changes in the tax legislation. Leaders find value in staying calm and not acting impulsively. As they build a network of people with different perspectives and points of reference, they find they are increasingly able to rely on their own intuition.



CASE STORY:

# *How can we be the catalyst for change?*

*Sandvik Mining and Construction  
Zimbabwe's wellness programme*

*The creation of Sandvik Mining and Construction Zimbabwe represented a transition from a company focused on supplying components to one working in close partnership with its customers in the field. When the scourge of HIV/AIDS threatened its Zimbabwe operations, it found that the business principles of leadership, commitment, partnership, continuous improvement and careful management were as applicable to seemingly overwhelming social challenges as they were to technical operations.*

## *A business built on its people*

For 40 years Sandvik Rock Tools – the division of Sandvik that designed and produced drills and drill bits used for tunnelling and excavation in mining and construction – had only one customer, a global engineering company that incorporated Sandvik's technology into its product and service offerings. When that partner bought its own rock tools manufacturing subsidiary to compete with Sandvik, the company found itself in a make-or-break situation.

Through a series of acquisitions and internal reorientations, Sandvik created Sandvik Mining and Construction in 1997. Sandvik would for the first time manufacture rigs for surface and underground drilling as well as all the rock tools for them. It would supply loaders and trucks for underground mines and hydraulic hammers for materials processing and demolition. This was a break with tradition but not with expertise. From its Tooling business, Sandvik had great familiarity with mechanical engineering. Ever since the 19th century, Sandvik's own engineers had been designing or improving the company's machines and factories.

The new challenge was to market and maintain the machines. Where customer contact had been relatively poor as a sub-contractor supplying components, Sandvik would now partner directly with the world's leading mining companies and the construction industry to understand and improve the customer's core business. This pushed the organisation into the field with its customers, increasingly in the developing world. In the ensuing years a full 80% of Sandvik Mining and Construction's business moved outside Europe. It also pushed Sandvik into services. Major investments were made in the aftermarket segment so that the company's offerings better met customer demands for availability, better utilisation, and improved performance.

When Sandvik was founded as Högbo Stål & Jernwerks AB in 1862 as a steel mill using the newly developed Bessemer method, it was a technology company. But in segments that require not only product quality but also service and enhanced cooperation, Sandvik could only develop further by being a close associate of its most demanding customers. Anywhere large open pits needed to be excavated, mine sites drilled, or roads and large hydroelectric projects built, there, too, would be Sandvik machines, Sandvik tools, and Sandvik service technicians. Aftermarket service on machines and equipment would reach 50% of sales for Sandvik Mining and Construction. Only 6% of its employees would work in Sweden. Though still supported by impressive technology, it was now first and foremost a people business.

## *A business terribly impacted by HIV/AIDS*

Established in 1981 after Zimbabwe's transition to majority rule, Sandvik Zimbabwe has become a key player in Zimbabwe's mining and construction services sector with close to 350 employees. Given the nature of its service offering, its staff are skilled individuals whose expertise is in demand in the labour market. Yet even this global company and its highly trained work force found its business in Zimbabwe increasingly threatened by the realities of HIV/AIDS.

Over 34 million people are infected with HIV globally. A disproportionate number are in sub-Saharan Africa, with southern Africa hardest hit. When HIV/AIDS emerged in the 1980s as a global disease, prevalence rates in the sub-region at first remained low, only reaching about 1% in the early 1990s. But by 1998 prevalence rates had skyrocketed to 27.2% in Zimbabwe. The HIV pandemic has profound, often devastating, consequences for all sectors of society. Zimbabwe found itself dealing with an unfolding tragedy. It experienced very high mortality rates and the public health system was overwhelmed by people presenting with the many manifestations of the disease. Most every family is directly affected in some way.

The burden of the disease was also felt by Sandvik in Zimbabwe. Mining is a high-risk sector for HIV/AIDS, in part because a large part of the staff spends most of their time away from their families. By 2005 Sandvik estimated an employee infection rate of 20-25%. Employees falling ill with opportunistic diseases were increasingly absent from work. In a society bound by close ties across extended families, the customary and widely respected practice of attending even distant relatives' funerals that were taking place at an alarming rate resulted in further chronic workplace absenteeism. The deaths and illness of colleagues and their family members were on the minds of all Sandvik employees.



Yet like most companies in the region, Sandvik in the beginning saw itself as a bystander to a crisis fuelled by a confluence of factors in Zimbabwe. Social norms including stigma associated with HIV/AIDS and a reluctance to talk about sexual relations created barriers to behaviour change. The country's severe socio-economic and political crisis led to the crumbling of a previously well-maintained health care infrastructure and a brain drain of health care professionals. Zimbabwe's HIV/AIDS crisis was exacerbated by chronic food insecurity, as sub-optimal nutrition increases the vulnerability of individuals with compromised immune systems to life-threatening opportunistic infections such as tuberculosis. Profound gender inequality also fuels Zimbabwe's epidemic, particularly among youth. These seemed far beyond the capacity of any one company to influence.

Sandvik was doing what it thought it could. Sandvik provided a special nutritional diet to HIV/AIDS-affected employees. As an overall health measure the company provided food packs with basic commodities to all employees during the hyperinflation from 2008 to 2009. But faced with both a social tragedy and a business continuity crisis, the company needed to take more concerted action. Sandvik Zimbabwe's management team realised in 2005 "*that in order for the company to continue to exist and survive at this point of the HIV epidemic, we needed to respond proactively to address the issue of HIV/AIDS.*" Nobody else was going to save the company.

Sandvik's new managing director brought lessons from Zambia, which was also facing an HIV/AIDS crisis. Complex systemic challenges such as HIV/AIDS, directly and indirectly impacting the business but not directly under its control, are difficult to address. Yet the management challenge was perhaps not so different from other aspects of the business. After all, Sandvik's success was premised on its ability to influence the way enormous mining customers thought and worked despite those not being directly under Sandvik's control. The company was not the owner of changes that worked for the customer and worked for Sandvik, but it was a catalytic agent. If Sandvik's management team asked itself if it could solve Zimbabwe's HIV/AIDS crisis, the answer would be an emphatic "no." But perhaps it could ask a different question: How can we be the catalyst for change?

## *Making up for lost time*

Examples of success in addressing HIV/AIDS were few and far between. At the time Sandvik started its treatment and prevention efforts, no other company in Zimbabwe had adopted a comprehensive approach to HIV/AIDS. The team realised that Sandvik would require the same leadership, openness, and willingness to act without having all the answers or knowing exactly where things would lead that the company applied to the technical side of its operations.

The starting point was making up for lost time. Medical advances were leading to increased HIV/AIDS treatment efficacy, while overall treatment costs were generally declining. In the late 1990s costs of antiretroviral treatment were as high as US \$10,000 per person per year. A combination of global lobbying by activists and improved technology has reduced these costs to about \$100 per year. HIV/AIDS became a treatable disease with affordable treatment. But only people who knew their HIV status and sought treatment early could fully benefit.

Sandvik hired a nurse. It included a strong awareness drive and the provision of confidential Voluntary Counselling and Testing (VCT). The high-profile nature of the campaign helped create an environment conducive to tackling the social stigmas around the disease.

Ongoing evaluation and improvement of the programme helped develop the optimal mix of new employee counselling, daily information sessions, off-site activities and peer and management training that started to deliver desired results. A disease management programme providing treatment and nutrition proved instrumental in reaching the high VCT uptake; simply knowing one's status without having access to treatment was not an attractive option to most. Even with the financial stresses the company was under during Zimbabwe's hyperinflation it stuck to its commitment of ensuring a reliable supply of antiretroviral medications, even directly importing them.

The programme began to achieve traction. An employee who retired due to complications from HIV/AIDS was encouraged to get tested, as was his wife. They tested positive and both received treatment and nutritional support from Sandvik for two years. When the employee regained full strength and was certified by the company doctor as being fit for work, Sandvik reengaged him. Now the employee and his wife spearhead voluntary counselling and testing uptake within Sandvik and the community. They carry the message to colleagues at Sandvik and to all Zimbabweans that they need to know their status and seek early treatment for antiretroviral treatment to be effective. Sandvik received an award from the Swedish Workplace HIV/AIDS Programme for Most Comprehensive Programme in 2011.

## *Looking beyond the company fence*

Sandvik knew that the scourge of HIV/AIDS was outside the company fence as well as within it, and that its viability depended as well on the viability of its suppliers and customers. Success with the internal programme gave management the confidence to look increasingly outward to see how it could help.

Sandvik expanded its wellness programme to employees' families and in particular is working with spouses. This includes peer education about HIV/AIDS, women's health issues and nutrition. Spouses are also being trained to become peer educators and counsellors.

A key element of Sandvik's outreach is peer education with the managing directors of companies in its supply chain. Sandvik then mentors the companies that choose to participate through its supply chain programme. This has been demonstrated to provide the impetus required to boost and improve workplace programmes beyond the start-up phase; one supplier's wellness coordinator describes Sandvik as the "catalyst" for putting its programmes in place. It also allows small suppliers to benefit from a sophisticated programme mirroring Sandvik's which would in all likelihood have been beyond their capability to implement on their own.

Sandvik, which initially had questioned the impact it could have on HIV/AIDS, sees promising results. One mining customer mentored by Sandvik recorded a drastic reduction in sick days from 1,000 to 200 days per month as a result of the effectiveness of their workplace programme. Yet continuous improvement is required. At one of Sandvik's customers, for example, it was an open secret that "Tuesdays were AIDS medication days" at the clinic. To ensure greater confidentiality, the dispensing of antiretroviral medications was integrated into the mine pharmacy's normal daily dispensing process.

The view of where impact can be found is constantly widening. One mine has registered its medical clinic with the Ministry of Health as an Anti-Retroviral and Treatment Centre, encouraging employees who were obtaining treatment elsewhere to transfer to the on-site

clinic. This move has both reduced the burden on the public health system and contributed to the reduction in hours lost to the long queues typical of outside service providers.

At another Sandvik customer, the concept of "risk management and employee protection" is shaping the response to a situation where sexually transmitted diseases affected an estimated 60% of their employees. A programme started in 2012 works to address the challenges – recognised by UNAIDS, the International Labour Organization and others – of promoting responsible sexual behaviours among mine workers at remote sites. Another customer is reconsidering the structure of employee work rotations given the social problems arising from their current fortnight away from home at a stretch. In these ways HIV/AIDS is increasingly being dealt with on the basis of the local context and international best practice, "as one would address any other business challenge."

Sandvik is quick to point out that they are not the wellness pioneers in Zimbabwe. Sandvik called on the Zimbabwe AIDS Prevention and Support Organisation (ZAPSO) to provide technical assistance for its awareness and prevention programmes. Collaboration began in 2006 with the Swedish Workplace HIV/AIDS Programme (SWHAP), a joint programme of the International Council of Swedish Industry and the Swedish Industrial and Metalworkers' Union with funding from the Swedish International Development Cooperation Agency and the Norwegian Agency for Development Cooperation. SWHAP provides financial and technical support to workplace programmes. SWHAP also supports sharing of experience and networking that enhance existing workplace programmes and spread the experience of SWHAP to more actors.

Sandvik's own wellness programme is now 100% self-financed. It provides financial and technical subsidies for its community and company outreach. It also contributes "passion." Sandvik's managing director has become an "ambassador" on a daily basis. He sees key facets of his role being the ongoing de-stigmatisation of issues and promoting an "enabling environment" where it is "okay to talk about it" both inside and outside the company. Sandvik also works to ensure that programmes continuously evolve in response to changing dynamics and stakeholder feedback.

## *Making wellness "the new safety"*

To some extent Sandvik Mining and Construction Zimbabwe's focus on HIV/AIDS is a continuation of a long history of promoting employee and community well-being. Sandvik's founding family imagined a model society supported by a profitable company. Started in the 1860s as a foundry at the centre of a purpose-built company town, the company by necessity looked after its employees. Worker apartments had cast iron stoves and flues. Space was set aside for vegetable gardens and yards. Projects for cleaner water and safer sewage advanced. As the Swedish understanding of worker rights expanded over the decades, so too did Sandvik's services to its employees. The HIV/AIDS programme in this light is a continuation of socially responsible thinking. Employees were themselves better off healthy, and at the same time more productive and more likely to stay with the company.

What may be different, however, is the growing focus on active management. Sandvik has learned that wellness needs to be managed "just like any other issue," integrated into company policy, systems, processes, decision-making and budgets. Sandvik's management also stresses the importance of having the right people in place to manage both the technical and social aspects of the programme, including both employees and specialists brought in from partner organisations. In this light the HIV/AIDS programme resembles



the evolution of company thinking on safety. Whereas companies formerly saw accidents to some extent as inevitable, they now set aggressive goals for accident-free workplaces and manage towards them. Senior managers are not allowed to argue that workplace fatalities or injuries are beyond their ability to control.

This new thinking has resulted in a more explicit and transparent business case. Sandvik employees know that for the company to succeed it must be a supplier of choice, and to do so it must attract and retain skilled employees. Workplace wellness is increasingly seen as an integral component of the business strategy to achieve this. One company poster states, “Promote employee wellness. Protect production.” Another draws connections among an effective workplace wellness programme, healthy employees, increased profits and greater business viability. Yet another says, “The health of your family is a business concern.” Sandvik needs responsible employees, and “Responsible employees make responsible sexual decisions.” It is all part of human capital management.

Beginning in 2009, Sandvik Zimbabwe placed its existing programme within a broader employee wellness framework. Wellness includes HIV/AIDS, but also preventive health screening, lifestyle issues such as non-communicable diseases, stress, diet and alcohol abuse, and potentially even personal issues such as financial well-being and dealing with

domestic violence. Sandvik Wellness Days that used to focus on HIV/AIDS have been widened to include a broad range of health issues from hypertension and cancer detection to dental examinations. The company needs to be cautious around issues that are personal and sometimes taboo. But Sandvik finds it can help create a culture of health. Through a variety of initiatives, people are on a daily basis talking about wellness.

The new thinking has also served to align the company better with the complex environment in which it does business. Environment, health, and safety were traditionally conceptualised in terms of the impact of the company's operations on its employees, the natural environment and the communities around it. But if Sandvik is to meet its strategic goal of being "truly global in mindset and organisation but with strong local adaptations," it also has to understand in depth the driving factors in the external environment that impact the company. It must find ways to influence external dynamics as a catalyst for positive change, meeting both social and company needs.

Sandvik management also note the intensely personal elements of the HIV/AIDS programme. "Wellness has brought us together like a family. We are involved, and just like in a family, we want to know what is happening and how we can chip in if needed." Through opportunities to serve as volunteer peer counsellors or simply as friends and colleagues at work and in the community, the level of personal engagement and commitment to address what had been seen as an overwhelming challenge is growing. It turns out that more rigorous business thinking and action may also enable more positive human relations.

THIS CASE STORY WAS WRITTEN BY PAUL HOLLESEN. IT IS BASED ON INFORMATION PROVIDED BY SANDVIK AND SWHAP. IT DRAWS STATISTICS FROM RYDER, B. SEX, DRUGS AND HOPE: HOW BIG BUSINESS FOUGHT AIDS IN SOUTH AFRICA. THE ECONOMIST, 13 APRIL, 2013.

#### ABOUT SANDVIK

Sandvik is a high-technology engineering group founded in Sandviken, Sweden in 1862. It operates in over 130 countries with some 49,000 employees and annual sales of approximately \$15 billion. It conducts business in five main areas: mining, machining solutions, materials technology, construction and the venture business. Sandvik Mining and Construction Zimbabwe are leaders in the manufacturing and supply of equipment, products and services to the mining, construction and quarrying industries. The company has a workforce of about 350 employees. The majority work at the mine sites it services around the country. (More information is available at [www.sandvik.com](http://www.sandvik.com).)

# 2

CHAPTER 2:

## How do our operations interact with the environment?

*“Unless you are willing to ignore enormous opportunities, you cannot just look at the environment; you must look at your company in that environment.”*

– Country Manager, agribusiness, Middle East & North Africa

***As we come to understand the complex environment, our next task is to understand how the company's operations interact with social, political, economic and conflict dynamics. Without this insight our own actions may unintentionally make it more difficult for the company to do business. In some cases our actions may generate direct risks to the company and people around us. Conversely, the dynamics we help shape within a complex system can have positive impact for the company as well as for the society in which we operate.***

A company starting or expanding its operations in a developing country – particularly one emerging from a difficult past – is often welcome. Communities, government and potential partners may look forward to jobs and business opportunities, contributions from the company to improved social conditions and stability, and connections to the outside world. A company committed to social responsibility may train local workers, build and support schools or clinics in the places it operates, and in more remote areas upgrade roads, power networks or water supplies. Doors are open to the company from the community hall to the ministry building. Business operations seem to start on a win-win footing.

Yet the company may over time experience growing demands from communities, pressure from both the government and the opposition, and increased entanglement in political and social tensions which feel unrelated to the company. Incredulously, we may hear people say that the company hasn't helped at all or even that it is making their lives worse. Advocacy groups may suggest links between the company and the less savoury people or events of the country. Foreign exchange becomes less available from the central bank, influential people withhold information and support, or protests begin in front of our gate.

It is often difficult to point to one identifiable moment, policy or incident that creates such problems or sours the company's relationships. Rather, they are most typically caused by an accumulation of unfulfilled expectations and small grievances. They may result from direct and indirect effects company operations have on existing social tensions, on conflicts and injustice in society, on the effectiveness and legitimacy of government, and in more extreme cases on the impunity with which governments and others may violate human rights.

Understanding and managing these dynamics may require a shift in mindset. We may have been asking typical risk management questions about outside forces and events and how they impact us. We also need to ask how our own actions may be feeding negative dynamics while undermining more positive ones – and what we might do to reverse this.

These questions help us explore how our operations interact with the particular complex environment in which we operate:

- 2.1 What is our own role in the context?**
- 2.2 How do our actions affect relationships?**
- 2.3 How do we affect people's quality of life?**
- 2.4 How do we affect capacities for peaceful development?**
- 2.5 How do we affect existing tensions within society?**
- 2.6 How do we affect core drivers of conflict and fragility?**

## 2.1 What is our own role in the context?

*The political, social, economic and conflict dynamics of a complex environment affect our relationships, opportunities and challenges. Because company actions invariably do not affect people equally, our business decisions and even our presence shape these dynamics as well. If we are inattentive to the many impacts of our own actions we may unintentionally make the environment more difficult for ourselves and others. When we manage risks and the consequences of our actions we can mitigate negative impacts and maximise positive ones.*

**Our well-intentioned actions often have unintended impact.** Running a business requires us to make decisions and take action: we need employees, want local partners, and hope to work in ways that create benefits for host societies. Our decisions, however, inevitably lead some to benefit more than others, thus affecting their responses to us and their relationships with each other. In complex contexts, these decisions can lead to unforeseen impacts that undermine even the best intentions.

When a company builds a road connecting its business in a remote area to the capital, it may also enable government service delivery and increase private trade. Yet the new road may also lead to increasing incursions by illegal loggers on the lands of nearby indigenous peoples. A company that relocates landowners to make way for an assembly facility may go to great lengths to offer highly favourable terms of compensation. Yet the process of resettlement may offer a chance for some people to grab new benefits or settle old scores at the expense of others.

Our actions play into people's contests, rivalries, and struggles to make ends meet or get ahead. While we may intend to remain neutral in relation to local or national social and political issues, local constituencies are unlikely to be indifferent to situations that affect them. They will perceive and judge us based on how they experience our impact on their lives. Social and political coalitions may form around opposing viewpoints on these issues. Existing divides may widen, shaping both our relationships with various stakeholder groups and the dynamics among them.

**Our impact takes many forms.** The very presence of a business has consequences for existing social, economic and political relationships. Management may be relatively indifferent to these consequences because they may not be positive or negative in terms of the perceived needs of company operations. If management thinks about them at all, it may be in terms of positive growth and economic opportunity.

Yet our operational decisions determine the way in which tangible and intangible benefits such as wages, contracts, community projects and legitimacy accrue to some people and not to others. Our decisions similarly allocate social costs, from pollution that we cause directly to problems associated with an influx of job seekers responding to perceived

economic opportunities stemming from our presence. In any place in the world in which we operate, some people will be disappointed about not getting a job or upset by the increase in truck traffic near their homes. In an opportunity-constrained environment, however, we have a more pronounced impact on the relative status, social relationships, and degree of empowerment or marginalisation based on differences between those who see new opportunities and those who do not, or those whose quality of life improves versus those who suffer harm.

How we behave also has impact. It communicates our level of concern and respect for local people and their welfare. It matters to people whether managers glance repeatedly at their watches during community meetings or take time to listen as people express their views fully; whether staff drive slowly and greet locals as they pass; and whether field operations teams know about and respect sacred sites. The comments of one landowner reflect this: “If you talk to me the right way, I will sell you my land for almost nothing, but if I do not like your condescending tone, I won’t sell it to you even at a high price.”

*“Various company actions put its social license at risk in ways that could take years to recover. Risk consultants try to forecast the probability of events happening, rather than helping the company manage in ways that keep them from happening.”*

– Country Manager, extractives industry, Africa

**“Best practice” is not always best.** Arriving in a new place we may be on the lookout for positive experiences or lessons learned in other contexts that we can quickly put into action. Our company may also have practices imbedded in its policies, systems and procedures that it believes exemplify an ethic of rational management and broadly recognised standards of business best practice.

Yet the assumptions about fairness or equal opportunity underlying these practices may not hold in the context of a specific complex environment. Merit-based hiring practices may result in the de facto disqualification of members of social groups that have been excluded historically from formal education and lack work experience. Highly technical specifications may bar local farmers from supplying tomatoes to company kitchens. Procurement only from suppliers who are certified to international labour or quality standards may exclude local manufacturers who may not be able to afford international certification.

In each case the implementation of an otherwise laudable principle may have unintended consequences. Company actions risk provoking or worsening tensions and conflict because they may be perceived to exclude some unfairly while benefiting others.

**How we do something can be as important as what we do.** Companies often attribute souring relationships or rising tensions to external factors. Yet these problems often develop or worsen because of the company’s own decisions and the way these are implemented in practice.

Few people expect that everything we do will benefit them. Individuals and businesses typically understand that not everyone can receive employment or a contract, and that an international company will have standards for aspiring suppliers. They may feel that they have been fairly treated, however, if we offer training that helps them to qualify for a position or tender for contracts on an equal footing. Those who are ultimately denied jobs or contracts may be more accepting of that outcome if they have participated in setting the criteria and defining the process for hiring and selecting contractors. It is how we address risks and possible negative consequences that matters.

The same applies for otherwise positive impacts. One company used its community development fund to build a bridge across a ravine that separated a village from nearby markets. Rather than being pleased, villagers were angry that “their money” had been spent without their input. They ultimately levelled accusations of corruption against the management of the fund. When asked what they would have done with the money, they replied, “We might have built the same bridge, but it would have been our bridge because we would have been involved in the decision-making. Now it is the company’s bridge and we don’t like it.”

*“It is important not to overcomplicate things. Broader context matters, as does history. But you understand your situation by looking to your specific relationships and the context and dynamics of your own operations.”*

– Country Manager, telecommunications, Middle East & North Africa

**Perceptions matter as much as hard data.** Some impacts are more objectively measurable. Air quality, staff salary levels, traffic volume near the company facility, and infrastructure development can all be captured by well-defined metrics and measurements. How people perceive and judge these data points, however, will differ according to what they see and experience personally, their interests and values, their historical experiences and stories, as well as their perceptions of our motives.

It can be tempting to dismiss people’s conclusions and stories as uninformed or inaccurate, and to try to refute them with seemingly objective data. But ignoring, denying, or trying to disprove perceptions often only escalates tensions. One woman commented: “This company kept telling us that the content of the sludge they pumped into the sea was not harmful. They kept using these PPM figures, which I don’t understand. No matter how much scientific terminology they use, I don’t believe them. The water smells different from before, and there are not as many shrimp as there used to be.” The company’s response to people’s concerns may increase their suspicion, contributing to a very real sense of insecurity and a perceived need to take protective action.

When we demonstrate understanding and address concerns sincerely we can create a positive dynamic. One company formed a joint company-community committee to conduct a technical investigation of whether the company’s drilling activity had caused landslides. Its willingness to be open and take seriously the community’s version of the facts defused tension significantly. Whether we think perceptions about the company’s impacts are right or wrong, it is our response to them that determines whether conflict rises or diminishes.

## 2.2 How do our actions affect relationships?

*People typically define a successful relationship with a company in terms of improved economic prospects and social services, company accountability for negative impacts that the company's operations have on them, and demonstration of fairness and respect by the company. The first two elements are increasingly a focus of company management. Less attention is typically paid to intangible qualities such as respect, dignity, fairness, caring and trust. These qualities are harder to measure, but they are no less important to people. How we deal with them in our relationships helps shape whether people support or resent our company's presence, and thus how they choose to interact with those allied with it.*

**The relationship has independent value.** When people feel disrespected, unfairly treated, or taken advantage of by company practices, they rationally and predictably react negatively. People respond more positively when company leadership, employees and contractors signal trust and caring.

Companies that focus on transactions and outcomes to the exclusion of process and relationships tend to work less constructively and face increasing resistance. “The only reason the company representative was speaking with us about problems,” a farmworker advocate commented, “was so that she could deliver her report to headquarters.” The fact that the company might be prepared to provide financial support was of less concern to the advocate. People attach deep importance to how they are treated in their relationship with the company. As one manager reminds us, “*Success in the complex environment is all about relationships, with mutual trust as a basis. This requires long-term investment, personally and organisationally.*”

A company’s relationship with its external stakeholders may not begin as a blank slate. From our own point of view we may be a new arrival in the market. Stakeholders, however, may see us in light of their previous experiences with other companies from the same industry or national origin. When we inherit a legacy that is positive we may find ourselves held to a higher-than-expected standard. When that legacy is negative, we may have to work hard simply to convince people that we should not be judged by the actions of our predecessors.

**All of our behaviour affects our relationships.** The quality of our relationship with stakeholders depends on the extent to which we demonstrate fairness, respect, transparency, and accountability across all departments and operations. This includes our contractors, suppliers, distributors, NGOs delivering community projects, and business or government partners, who are all by association part of company operations. Delays in accounting’s payment of invoices or the way in which the contracting department interacts or fails to interact with the local chamber of commerce may undermine the work of the Community Relations or Government Affairs teams.

Seemingly small behaviours send messages about the company's intentions, caring, trustworthiness and sincerity. Speeding on narrow roads, explaining an operational process in technical terms that the listener does not understand, or assuming that problems can be made to go away by paying damages reflect negatively on the company. Similarly, how we treat local company staff and even off-duty staff behaviour send messages about how the company views the community.

Our behaviour can also inadvertently communicate messages of distance and antagonism. Armed guards at the company compound can make people feel threatened and less secure. High walls, barbed wire or extensive security checks to enter a company building send messages of aloofness and superiority. They may reduce contact and levels of comfort between company staff and local people, feeding a downward spiral of mistrust and fear. When companies maintain distance from people and treat them as a security threat, each starts seeing the other as an enemy or a risk rather than as a neighbour.

*“When there is trouble, it’s far too late to build a relationship. You better have been listening and talking all along.”*

– Corporate Communications Manager, industrial goods & services

**Respect and dignity are essential.** When people feel their dignity or identity has been violated, no material benefit can repair the damage. Building schools and clinics in communities without consultation may garner resentment rather than support for the company. A good relationship cannot be “bought” this way. People feel disrespected when procedures for discussion and decision-making on which companies rely are not attuned to local cultures or focus more on getting things done or meeting deadlines than on building relationships. Conversely, treating people with dignity can create goodwill and even tangible benefits for the company. Electrolux’s attention to workers’ health, safety, self-improvement and learning needs (case story, page 122), for example, made employees less open to being recruited by competitors, even with offers of higher pay.

Power and status asymmetries can make it more difficult to interact with local stakeholders. International companies have more resources than most communities and many government departments. They can afford expensive legal advice and may more easily access decision-makers at the highest levels of government. People who feel intimidated, inherently dominated by, or dependent on the company may be hesitant to express their opinions. This makes it difficult for managers to understand what they want and how they feel. When we take extra steps to minimise the effects of power asymmetries on our relationships – for example, by arranging for outside experts to train landowner representatives to ensure they can negotiate effectively with the company – we help to circumvent this inherent power imbalance and demonstrate respect.

**People desire engagement and meaningful consultation.** People value dialogue with the company and direct access to decision-makers. This is not only true in situations where there are problems; people around the world want the respect that direct, honest and meaningful contact implies. They want to be known by the company officials who come to work with them or are present in their community. And they want colleagues and partners who care and are willing to engage with them in problem-solving.

In the words of a community member, “We want to discuss together, decide together.” This requires transparency.

Where communications procedures focus more on selling the company’s message than on listening for concerns, people feel managed rather than engaged. Failure to be open and honest about potential negative effects feeds mistrust. When they are unanticipated, negative impacts of the company’s presence such as pollution or localised inflation come as rude shocks and can easily provoke resentment; people and institutions can neither prepare nor look for solutions. On the other hand, if a company finds ways of buying land or allocating contracts more transparently, it anticipates stakeholder concerns and can reduce or prevent tensions over presumed favouritism. As one manager has stressed, “*It pays to be open and transparent with people. Talk openly about everything. They will then understand you and what you stand for.*”

Managers may fear that transparency can put the company at a disadvantage, strengthening opposition and leading to increasingly unreasonable demands. The greater danger may be that, without accurate information about the company’s current activities and future plans, stakeholders will develop unrealistic expectations or assume the worst. Communities may believe that there will be more jobs than the company can provide, that the community is in danger when it is not, or that the company has more resources and profits than it does. In one case, angry neighbours blocked roads to protest their exclusion from company programmes to upgrade housing. They did not know that upgrades were already planned for them in a subsequent project phase. Transparency helps dispel rumours and temper false expectations and fears that the company has something to hide.

**“***You develop local suppliers rather than building your own production to manage capital allocation and variable demand, but also to manage risk. You do not want to be an island in the desert. Long-term security comes from being imbedded in society.* **”**

– Country Manager, agribusiness, Middle East & North Africa

**How we deal with problems shapes the relationship.** We strengthen our relationships and our ability to deal with the next problem that arises when we address concerns, grievances, and demands in a timely, open and fair way. A good relationship makes it far more likely that communities will be understanding when issues arise and will engage constructively and peacefully to resolve them with the company.

In Colombia, for example, an oil company worked together with the local community to jointly monitor the effects of its operations and promptly investigate every claim against it. Convincing of the company’s good intentions, community members made no big deal of an accident that occurred later, and claims were handled cordially.

Where the company is seen to hide, ignore or downplay problems, however, even minor incidents can lead to public outrage. As one corporate communications leader put it: “*Corporate silence on issues important to a community speaks volumes. It says, ‘We don’t care. You don’t matter to us. You can’t count on us.’*” The door can be opened to expanded influence for outside actors – from advocacy NGOs to armed actors – to pursue anti-company agendas.



#### COMPANY TO COMPANY

## How do we manage through the worst of it?

### Schweppes Zimbabwe Limited

Schweppes Zimbabwe Limited (SZL) is Zimbabwe's largest producer, bottler, and marketer of consumer beverages. Like most businesses in Zimbabwe, SZL struggled to survive as the country from 2002 to 2008 experienced extreme political violence; government repression of media, business and civil society; and devastation of the formal economy. In one of the worst episodes of hyperinflation in history, Zimbabwe's inflation rate in 2008 reached an estimated 98% per day – or 80 billion percent per month – as the country's physical and institutional infrastructure began to collapse.

Over that period an estimated three million people, or one-quarter of the Zimbabwean population, fled the country. The loss of skilled staff to emigration meant that SZL faced the irony of a chronic skills shortage in a country with virtually 100% unemployment. Unskilled people running SZL's factory resulted in damage to machinery. Because of the dearth of workers to service its equipment, the company's maintenance practice became "run to failure." Output dropped by 70% by 2008 and costs of doing business increased. The company had to lay off

300 employees out of a previously 650-strong team. Meanwhile, the government imposed price controls while insisting that the company maintain production, so raising domestic prices commensurate with costs or cutting its losses turned out not to be an option for SZL.

Yet Schweppes Zimbabwe Limited survived the crisis. When Zimbabwe's national unity government in 2009 replaced the Zimbabwe dollar with the US dollar, lifted price controls and began the economic reform process, SZL emerged positioned for recovery.

The first element of the company's survival strategy was to manage its foreign exchange. Before the crisis, SZL imported 60% of its raw materials from South Africa, paid for in South African Rand. The bulk of SZL's sales revenue came from Zimbabwe, however, denominated in Zimbabwe dollars that were becoming increasingly worthless. The flood of Zimbabwean emigration to neighboring South Africa provided a possible solution. The company set up a distributor in South Africa to reach its millions of former customers. Demand for SZL products, particularly Mazoe Orange Crush, proved strong. The initiative was quickly a success. Before price controls, 70% of revenues had come from the domestic market. After price controls, 70% came from abroad. Government pressure was also mitigated as it benefited from SZL's foreign exchange earnings. Exports had become critical to SZL's survival.

With the Zimbabwe dollar virtually worthless by 2008, the company abandoned any pretext of normal sales or distribution within the country. Supermarkets were frequently shut down by government for defying price controls. In any case, retailers could not hold inventory as items lost too much value between their purchase and their resale. Zimbabwe became a barter economy. Mazoe Orange Crush even became a unit of currency in its own right. People would crowd around the factory each day to make purchases. With police and soldiers among the buyers, SZL had to sell at the control price. Security personnel and others would then simply sell the bottled drinks they had purchased, at a profit, on the black market. SZL's domestic sales and distribution no longer went any further than the factory gate.

SZL developed a basket of strategies to address skills shortages. First, SZL obtained permission from the Central Bank for special dispensation to pay 15 critical staff in US dollars, using the foreign exchange inflow from exports that also benefited the government. Second, it began a payment-in-kind scheme for other staff, offering a grocery hamper of essentials instead of payment in Zimbabwe dollars. Third, the company indexed salaries to the unofficial "Old Mutual Implied Rate," which could be calculated by comparing the share price of the London-based insurance firm that was listed on both the London and Harare stock exchanges. (The official exchange rate had long-since ceased to be believed by businesspeople and consumers.) Fourth, for every two skilled positions, SZL employed an extra person as a backup in the event of sudden turnover and further skills loss.

To manage government intimidation, SZL adopted a policy of full transparency. Even though SZL's top-selling Mazoe Orange Crush was on the national price control list at a level that represented only 70% of its production cost, the Joint Operations Command (JOC) of the military, police, and intelligence service were convinced that the decision to reduce output came from Coca-Cola headquarters and was aimed at sparking civil unrest and regime change. The JOC insisted that the company produce. It demanded access to company documents and its agents would regularly sit in on SZL management meetings. The company complied fully even with extralegal demands. It adopted a strict "non-partisanship" policy within the company. This was respected by staff, who recognised that other Zimbabwean firms that had supported the opposition were persecuted by the government. The company also maintained tight protocols in its engagement with the media. Finally, government affairs responsibilities were managed from



the highest leadership levels, particularly with the Central Bank on the sensitive issue of foreign exchange. This combination of internal discipline and outward transparency enabled SZL to stay clear of the worst kinds of government interference that had crippled other Zimbabwean companies. All the same this period was highly traumatic for SZL's management, who lived in constant fear that one or more of them would be imprisoned.

Finally, the company never lost hope for the future. It developed its business plan for eventual rebuilding and retooling. It introduced a training programme that brought 23 new university graduates into the company in 2007 to develop them into the next generation of core management in what the leadership wanted to be a growing company.

Thus, when the political situation stabilised in 2009 and the economy began to grow, SZL was ready. It strengthened its domestic supply chain while continuing to explore export opportunities. It developed an employee ownership scheme, in part to comply with government requirements for indigenous ownership and in part to repair damage to employee relations and team morale inflicted by the crisis. SZL ramped up production from 8.4 million cases in 2008 to 40 million cases in 2010. It doubled its operating income in 2011 alone.

Despite the continuing political stalemate in Zimbabwe, SZL continues to invest for the future. It trusts that no element of the country's fractious politics wants to experience the turmoil of 2002 to 2008 ever again. And in comparison with its past challenges, even in a market that remains quite complex the company will do just fine.

ADAPTED FROM A FLETCHER SCHOOL CENTER FOR EMERGING MARKET ENTERPRISES REFLECTION FROM PRACTICE BY CHARLES MSIPA AND DEMOS MBAUYA OF SCHWEPPES ZIMBABWE LIMITED WITH STEWART K KELLY OF THE FLETCHER SCHOOL.

## 2.3 How do we affect people's quality of life?

*Because it is part of a complex system, the company's presence and its operations will contribute to changes in quality of life across a variety of dimensions: livelihoods, social relations, environmental quality, governance and leadership, and in the longer run culture and values. While the company may focus on its positive contributions, others are sensitive to the more negative consequences and the signals the company sends about its sense of responsibility for them. They are also attentive to the company's willingness to work with the community to mitigate negative impacts or create positive ones.*

### THE MESSAGE

**How we work has direct positive and negative impact on people's quality of life.** Jobs, contracts, and community investment projects can significantly improve people's standard of living. Companies have also found ways to create broader benefits by changing how they typically operate. One company in an area with high youth unemployment contracted 20 people to dig a trench instead of hiring one bulldozer. A road can be designed to facilitate farmers' access to markets rather than exclusively to service company operations. A dairy processor (Tetra Laval case story, page 158) worked with local farmers even in situations where a large commercial dairy might have been easier to manage. In doing so, it fostered goodwill while building new opportunities for the company and others.

Company operations can also have immediate damaging effects. Populations may be displaced to make room for company facilities. Communities may suffer more noise, dust, traffic, or pollution because of company activities. Company operations that consume or contaminate locally available natural resources prevent communities from using them. As a result, people may have to travel farther to fetch water or work harder and longer to collect firewood. Similar dynamics play out in urban areas when residential property is converted to commercial use. When people are resettled, they may end up impoverished if they have difficulty re-establishing their livelihoods in a new location whatever the level of compensation provided.

**How we work also has indirect impacts on people's quality of life.** Indirect impacts are often visible only over the longer term. They may be difficult to attribute to specific company decisions or actions, as they are often tied to the local dynamics to which the company's presence contributes both positively and negatively. They are, however, just as much part of company impact as its direct effects. And because benefits are often concentrated on particular individuals or institutions and negative impacts more widely experienced, in the aggregate more people may experience negative than positive impacts of the company's presence. This will be more or less true according to how company impacts are managed.

On the positive side, *market effects* may include an increase in secondary economic activity as hotels, restaurants, suppliers and contracted services sell to the company, its employees

and its customers. Yet price inflation within a local market, increasing property and rental costs, and land speculation may cause a decline in the standard of living for significant portions of the local population, particularly its already vulnerable segments.

Better education, higher health standards, and improved human development indicators may be among the *social and cultural effects* helped by rising incomes or social investments. But an influx of people seeking opportunities or a sudden increase in the amount of cash in the local economy can be accompanied by an increase in prostitution or alcohol abuse or changes in social structure within the community.

A company's presence and the resources it brings may have *governance effects* as they catalyse changes in existing patterns of leadership and authority. Policy or regulation related to the company or its industry may invigorate healthy debate over the relative authority and roles of the parliament and the executive. At the local level, new people may step forward to represent the community, challenging existing patterns of legitimacy and representation. If not managed well, the disruption may lead to competing power centres, a loss of legitimacy of functional local dispute resolution mechanisms and other negative consequences that increase competition and conflict.

Company operations implicate a variety of risk factors for violence, and thus may affect *physical security*. In-migration to a company site typically increases petty crimes affecting ordinary citizens and small local businesses. Changing levels and patterns of income can lead to increasing rates of domestic and gender-based violence. In one instance, people attributed the inability of their community to resist political violence to the loss of social cohesion they had experienced due to an influx of new people.

**“Yes, your new technology may be more cost efficient and more reliable. But the old technology may provide work to twice as many people. It’s hard enough in a developed country to say, ‘Half of you are not needed.’ Imagine how it is in the complex environment.”**

– Country Manager, telecommunications, Asia

**Our actions may not align with others' sense of fairness.** Fairness – like relationships – is of fundamental concern and independent value. If corporate policies and decisions that shape the distribution of benefits fail to reflect or acknowledge local notions of fairness, then company actions and impacts are more likely to be perceived as negative. They are also more likely to be a source of tension between the company and its stakeholders as well as among stakeholders themselves.

A company's notion of fairness may differ from that of local people on questions of who deserves to benefit and who does not, who is local and who is not, on issues of gender equality, and so on. People often perceive a company as acting unfairly when it hires outsiders – even if they are from the provincial capital rather than from abroad – for jobs they felt should have been allocated locally.

There are no perfect or universally acceptable solutions to questions of fairness. The role of women in society, for example, remains contested in many places. This makes it difficult to identify approaches to gender equality that satisfy everyone. In such cases we may demonstrate deference towards local notions of fairness by putting concerns – ours and others – transparently on the table. Companies increase the likelihood that their impacts will be experienced as positive when they are seen to be aware of and respectful towards local values, expectations and notions of fairness with respect to the benefits and negative consequences of their operations on those around them.

*“You need to accept that some aspects of your operations, such as an emphasis on gender equality, represent a kind of social revolution in the local market, however small. The company must acknowledge and manage the tensions inherent in standing by its core values.”*

– Social Responsibility Manager, defence sector

**Demonstrating accountability for outcomes may matter most of all.** A company's perceived refusal to accept responsibility for the consequences of its presence and activities – direct or indirect – can be as damaging as those consequences themselves. It becomes part of the negative dynamics people experience in a complex environment (discussed in section 1.1), and may feed feelings of disempowerment, hopelessness, insecurity, or fear. This may contribute to an operating environment in which it is more difficult for the company to do business, and in which direct risks to the company and the people around it increase.

The converse is also true. People may respond in more measured ways to negative impacts on their quality of life when a company accepts responsibility, demonstrates sincere concern, and genuinely tries to repair harm and prevent it in the future. One company worked in a socially troubled area where many young people were addicted to gas sniffing. It developed a type of kerosene to replace gas and reduce opportunities for abuse. It had not caused gas sniffing. But the gesture helped alleviate a problem in the community and was greatly appreciated by community elders. When a community can see that a company works to address problems that arise as a result of its operations, they interpret this as a sign that the company cares about them and their lives. This in turn reduces risks and helps create an enabling operating environment.

## 2.4 How do we affect capacities for peaceful development?

### THE MESSAGE

*Where needs and challenges are great, it is often difficult for us to see existing capacities: the functioning social and political institutions and relationships on which a country's or community's development depends as much as it does on jobs or productive assets. If we are blind to these, we risk further weakening already fragile institutions, building resentments against the company, and undermining sound development efforts and capacities to mitigate or prevent conflict. Understanding the existing resources and capabilities within local communities helps us organise our operations in ways that support people's own capacities for peaceful development and, where possible, strengthen local institutions.*

**Our actions can strengthen or weaken connectors.** People's values, economic and social relationships, political structures and experiences may bring them together across lines of tension and division. Through our behaviour and the way we distribute benefits, we can strengthen or undermine these "connectors." Outsiders – multinational companies as well as humanitarian aid and development agencies – can undermine such connectors when they are unaware of their social function. In one community in a conflict-affected country, the two ethnic groups in conflict peacefully shared a single school. Following an escalation of tensions, a well-intentioned agency built a second school so that each group would have its own. The result was to eliminate one of the few areas of constructive interaction and conflict resolution between the groups: daily interactions among their members, negotiation of solutions to problems related to the use of the school, and the experience of peacefully doing so.

Outsiders can also strengthen and reinforce these connectors. In one post-war context in which the two warring ethnic groups had a previous history of working side by side in state-owned factories, an agency built on that history of economic interaction by supporting wool production enterprises in one community and rug weaving in the other. The communities quickly came together on their own to agree that the wool producers from one ethnic group would supply raw material to the rug weavers from the other, creating a channel for communication and a platform for rebuilding relationships.

**Our decisions affect people's ability to resolve disputes and pursue justice.** People use a variety of institutions and processes to resolve grievances and pursue justice. Spiritual leaders in South Sudan, for example, perform sacrifices and oaths to mediate in all kinds of conflicts, alongside the statutory courts that apply state law and customary courts that apply customary law. In many countries, national and local peace committees exist to facilitate dialogue and prevent and resolve disputes that can escalate into violence. Such institutions and processes are not always easy to identify, particularly if they exist outside the framework of the state.

Company decisions may unwittingly undermine such mechanisms for dispute resolution and reconciliation within or between groups. One company wanting to provide water to a community sunk a bore hole at a location that was later discovered to be on private property owned by a Christian. Tensions escalated along religious lines as members of the community's Muslim majority felt they had a right to access the water. The company's assumption that local government should settle the issue led it to overlook a respected sheikh to whom both Muslims and Christians had traditionally gone to resolve disputes. This allowed the conflict to escalate unnecessarily into violence.

Establishing new or parallel institutions – company grievance mechanisms that are unconnected to legitimate local institutions, for example – may weaken existing ones. When companies undermine institutions and processes that are fair and effective, they can leave individuals or groups without effective means for resolving disputes and thus more prone to conflict. When companies recognise and work through these institutions, they can strengthen them and make communities more resistant to conflict. At the same time, supporting dispute resolution and justice institutions that are perceived as unjust will deepen sources of division in an already divided society.

*“It is easy to lose sight of risks that we don’t have control over, such as the social dynamics around us. You need to constantly engage the organisation: how do these affect us? Where are they headed? How can we manage the risks or be part of fixing them?”*

– Community Relations Manager, extractives industry, Africa

### **Our actions affect physical and material capacities for development.**

Even poor and underdeveloped communities have resources such as land or skills and labour on which their ability to sustain livelihoods are based. Operations that require resettling populations often result in loss of access to productive land, undermining a community's subsistence and self-reliance. High expectations of working for or providing services to a company may lead people to abandon traditional livelihoods to move near the company or take loans to start small businesses, leaving them vulnerable if such opportunities do not materialise. At a sectoral level, industrial contamination of the water supply in South Africa has put hundreds of thousands of agricultural jobs at risk as exporters find it increasingly hard to meet stringent European health standards. A variety of company actions can make it difficult or impossible for already-vulnerable people to build their lives.

In contrast, companies can work in ways that enhance local people's abilities to sustain themselves and develop economically. One oil company instituted a range of measures to reduce dependence on the oil sector, which typically provides relatively few jobs in the production phase and eventually closes operations. It conducted a capacity assessment of other sectors and, as a result, developed a partnership with the National Coffee Federation to train local youth in agriculture. It supported the development of labour-intensive industries such as orange farming, shifting attention to a more sustainable sector.

**Our actions affect social capital needed for peaceful development.** Like companies, families and communities need both financial and social capital to develop. Change in income levels, status and patterns of interaction can disrupt group identities and social relationships: between men and women, landowners and landless, different generations of people, or migrants and locals. To the extent that our recruitment favours women in a garment factory or youth in a high-technology repair facility, for example, it may alter family dynamics or inter-generational power relations. Traditional governance structures and authorities can be undermined when highly employable young males gain unprecedented access to money and the ability to gain favours or respect. Resettlement of rural populations can undermine collective farming patterns or disrupt local markets.

While such change is not always necessarily bad, it can damage mutual support networks and patterns of trust, undermining communities' resilience. A contract with a partner whose supply chain network is politically or ethnically based may alter relative group welfare and undermine inter-group relations. Social investments benefit some and not others even as they increase the legitimacy of our chosen NGO partner, impacting people's relative status and relationships with each other. Such changes may create significant tension or risk of violence during periods of social transition.

*“In a closed society, the company offers people responsibility and accountability beyond that which they have experienced before. It loosens social constraints like deference to elders. Sharing, discussing, traveling, and learning become the norm. And what happens inside the company will eventually translate to expectations outside the company.”*

– Country Manager, industrial goods & services, Asia

**Our actions affect people's ability to shape their own future.** Companies can engage with people in ways that enhance or undermine their psychological and motivational capacities: their sense of purpose and agency, feelings of empowerment, or hope and confidence. These capacities are an important basis for any effort to build stronger economic and social systems.

Even well-intentioned projects can ultimately create an expectation that the company will fix all of the community's problems. People become askers rather than doers, increasingly skilled at getting the most from the company that they can. Company development schemes can compete with and undermine local markets and financing mechanisms. Over time dependency on the company can grow and weaken the community's ability to organise itself and define and realise its own development initiatives. As one community leader noted, “Do not fall in the trap of being paternalistic by giving handouts – paving a road or providing short-term contracts. It does not help the community in the long-term to get out of their dependency-trap.”

***Our actions affect people's ability to hold their own representatives and government accountable.*** Section 1.4 discussed the variety of forms of governance and authority in complex environments. The leaders that particular groups or communities consider legitimate and effective may be located in a variety of institutions, both state and non-state. When a company bypasses legitimate leaders or deals with illegitimate ones, it may decrease accountability and increase citizen powerlessness. Even when the intent is to develop the capacities of government, the company may undermine good governance by marginalising effective institutions. As is the case with local capacities for dispute resolution, it matters whom the company works with and whom it ignores.

Approaches that put community groups, civil society actors and government agencies at the centre of planning and decision-making support them in achieving effective citizen-state relations and encourage the government to fulfil its obligations to citizens. In the Dominican Republic, for example, a mining company conducted its planning with local communities by supporting a new but not-yet-implemented national framework for decentralisation and the development of municipal governance. By helping authorities and civil society put the law into practice, it strengthened good governance and local capacity and helped ensure that communities receive services due them.



#### LEADER TO LEADER

## How do we adapt our systems?

Leaders interviewed agree that the manager who arrives in a complex environment believing that the job is to implement existing company systems and processes is likely to fail. Internal processes are dependent on external processes, and those may be absent or broken. If the company is to deliver to customers and headquarters what it has promised, it needs a resilient organisation, designed to fit the realities of the environment. The solution with which a manager arriving from elsewhere is familiar may not be available, or may not work. This requires an atypical perspective.

Thinking this way, they report increasingly coming to see obstacles as possibilities. Where there is no system in place – for example, no distribution network – it becomes possible for the company to shape one to its own advantage. Market opportunities become far more obvious. If deliveries to customers are always late because a service provider's trucks are always breaking down, then the company can figure out how to be in the business of fleet maintenance.

Leaders are not advocates, however, for lowering standards. In an environment where government doesn't do so, they say it is the job of the leader to set the standards. It may seem difficult to bring operations in a complex environment up to international standards, operating well above the law and common practice in the local context. But in the end, living up to high standards is the easier path. Once operational excellence is achieved, it's a point of pride for employees, and a sustainable way of doing business for the company.

Managers note particular challenges in raising social standards. They report being constantly up against the challenge of local practice. Not only a supplier may like excessive overtime, but also the local government and even the workers' union, despite clear local law to the contrary. Here it helps for the company to be able to say, "We are one global company doing business one way" – and be able to transparently show that this is true. This is equally important for employees as for external stakeholders.

Particularly in a country where life has a low premium, leaders find that managing to the highest social standards must be a set of ongoing conversations. First is the conversation about benchmarks: this is the way we do things in this company, no matter whether the law is silent or how people elsewhere may do things. Second is the management conversation: we do not talk about financial performance without also talking about health, safety and environmental performance. Third is the results conversation, highlighting, for example, how insisting on suppliers wearing proper safety equipment helps our operational continuity and profitability. Perhaps most important in societies where people may not feel empowered to confront others or apply peer pressure is the collective identity conversation: this is who we are and the path that we are all on together. Positive reinforcement every day is critical, led by example.

Leaders experience a complex inter-relationship between global values and local performance. The company may, for example, be committed to gender equality. But it will need to set goals differently for the global headquarters in Europe and for a market where gender equality is less real and less accepted. The key is to make sure in both places that values have become performance objectives.

The fact that something is a global system or common practice within the company, however, does not make it a standard. The country manager may need to help headquarters managers far away from the people who live with the consequences resist the temptation to believe that they know better, make decisions about systems and processes without consultation, or take an enforcement mentality towards decisions made. All this leads only to frustration and negativity. The key is for all parties to look at, and think about how to manage, within a particular context.

The company leader also needs to be comfortable with different cost/benefit calculations within each unique environment. Yes, the company's preferred technology may be more cost efficient. But the old technology may provide work to twice as many people. It's hard enough in a developed country to say, "Half of you are not needed." One needs to understand how much harder it is in a developing country. Balancing all of the company's objectives together – financial and technical, social and political – leads to better decisions and better outcomes.

Leaders note that adaptation is a two-way process. Their advice is to manage change by asking questions. A new manager may see something that needs doing, and be anxious to jump in to fill the gap. But first it's important to understand why that hasn't been done already. The current way of doing things was designed to purpose, even if it is difficult at first to see the conditions to which it responds. There is likely also some sense in what is not done as well as in what is done. Before criticising an existing practice and certainly before implementing a new one it is best to understand, "Why are we doing things this way?" Strong relationships with people throughout the company and a willingness to listen to the experience of the staff in the field are helpful. One is much less likely to break something as one tries to fix it.

Managers emphasise that they must invest in communication and more communication in the complex environment to design and implement new systems. Underprepared staff may need to understand not only what is meant to happen, but why it needs doing and how it relates to what others are doing. The big picture needs to be on the table. The leader as well will need to recognise that simply understanding what is happening is a difficult task. Time on site, talking

with many people, is required to understand not only how related processes and systems are meant to work, but how they are in fact currently being carried out.

In developing new solutions, managers find it useful to remember that people in complex markets have often enough suffered from bad leadership. They will not respond to a company leader who mirrors the dictatorial tendencies that they have experienced in the past. In a country with an authoritarian management style, the leader must think about how to engage local staff to ensure good decisions. Consultations may be better done one-on-one than in larger meetings. Asking for pros and cons of a course of action may be more fruitful than asking for agreement or disagreement. Decisions are less likely to be challenged, so must be taken with more care. Respect for local staff goes a long way towards effecting meaningful change.

The job is to keep at problems until a workable solution is achieved. The challenge is to stay focused on meeting high standards through flexible methods. An attitude that the fences are high but the road is wide can help.

## 2.5 How do we affect existing tensions within society?

THE MESSAGE

*Complex environments are often characterised by tensions or divisions among groups, between citizens and the state, or between regions. Company operations create and exacerbate these divisions by increasing competition for resources, rewarding conflictive behaviour, or inadvertently favouring one group over another. Conversely, companies can act to avoid exacerbating divisions and engage with stakeholders in ways that build on commonalities and bring people together across lines of tension to develop solutions all perceive as fair.*

**Our practices can trigger contests for control of resources.** The benefits and resources that companies bring can significantly alter the balance of wealth or power in impoverished or divided societies. Stakeholders may attempt to capture these resources or become the arbiters of their distribution in order to ensure that they and their allies gain. These struggles for control over resources lead to tensions and sometimes violence. In Papua New Guinea, for example, a mining company's decision to negotiate land usage and compensation with 23 sub-clans (instead of seven clans) increased deep divisions and resulted in violence in the community as each group vied for more compensation than the others.

*“Taking action may evoke a lot of fear among colleagues. Overcoming that fear requires making clear the alternatives: do nothing and live with an unsatisfactory status quo, or take a risk. The question is not, ‘Do we like the risk?’ The question is, ‘Do we have a better idea?’”*

– Customer Services Manager, consumer goods, Latin America

The company may also exacerbate conflict when people who engage in violence receive undue attention and benefits. In one volatile area of company operations, youth leaders reported that they saw their village elders receive pay-offs from a company to control the community. They took up violence against corporations in the hope of receiving cash pay-outs of their own. Companies then tried to appease the groups by hiring them to protect company assets from attacks by other youth groups. The frequency of roadblocks and violent incidents subsequently increased. As one person said, “When we saw that the youth of that neighbouring village who blocked the road were then hired by the company to protect it from their own threats - so they got both jobs and income - this looked good. We would be fools just to sit here and wait.”

**Our practices can worsen existing tensions and divisions.** Company policies can inadvertently exacerbate tensions in contexts where social division, inequity and tension are present. As one country manager in Asia observed, “*The company by default will fall into the same patterns of ethnic separation as are present in the local market.*” When groups see each other as being in competition for power, legitimacy or resources, company decisions that differentiate among them can exacerbate grievances, deepen tensions and widen the divide among them.

When the company inadvertently *restricts benefits to particular groups* that overlap with groups in conflict, seemingly neutral actions can exacerbate hostilities. One company’s procurement process in a region with inter-ethnic tension was designed to be transparent, prevent corruption, and avoid accusations of bias. Yet all of its contracts were awarded to members of the majority ethnic group. The requirement that bidders have a government license had led minority-owned enterprises not to apply. Obtaining licenses would have subjected them to blacklisting in the neighbouring, hostile country dominated by their own ethnic group. Depending on existing conflict divides, criteria based on geography, identity (for example, youth or ex-combatants) or socio-economic status can feed into and worsen intergroup division.

People are also acutely aware when they are *left out of the benefits* flowing from private sector development. One woman pointed out the dam next to which she lived. She explained it was supplying irrigation to commercial farms and electricity to factories while her village went without lights or running water. It was said that the dam had been built for development, but it had not improved her family’s circumstances. She concluded by saying that the situation would need to change. Otherwise, she calmly observed, the villagers knew where their guns were buried. Just a few months later fighting broke out between government forces and local militias made up of people who felt excluded from any benefits of the activities around them.

Company operations may unintentionally *concentrate harms unfairly*. When negative operational impacts fall on marginalised groups more than others, they can deepen those groups’ sense of exclusion, privation and grievance. One company developing a hydroelectric project depended on government action to secure land rights. Displacement fell disproportionately on a marginalised indigenous population who were unable to re-establish their livelihoods. In a context in which indigenous rights were already a source of political tension and dispute, this deepened grievances significantly, eventually contributing to open conflict with the government.

The company may be tempted to *engage mainly with pro-company factions*. Where a legacy of negative experiences with industry divides people into pro- and anti-industry groups, companies can divide communities further by dealing only with the pro-company factions and ignoring the concerns of others. A mining company operating in South America provided support for the creation of a new indigenous association with a pro-mining platform. The move exacerbated tensions within the indigenous community whose national confederation did not recognise the new association, as well as between indigenous and non-indigenous groups.

**Our actions can substitute for government.** Companies often step in to provide some combination of roads, health care, education and even security when government lacks the capacity or resources to provide these in the urban neighbourhood or rural community in which it does business. This may be welcomed or even expected by communities that

lack access to such services. Yet in an environment in which local political authorities may be competing for power with other actors, companies may weaken officials' accountability to the populations that they ostensibly represent and reduce the government's ability to establish legitimacy and support.

Where government services are not provided because of indifference or discrimination, the company effectively may be relieving the government of its responsibility. It may be helping divert resources to patronage, corruption or in overt conflict situations the proliferation of war. When one chemical company in Nigeria decided to upgrade the entire length of its access road as a social investment project, local government officials began referring all community complaints and requests about infrastructure and services to the company. With the company taking on the role of service provision within the vicinity of the plant, local officials pocketed unspent government funds as unofficial salaries.

*“The mere scale of company operations amplifies problems around it. And there are also conflicts between groups in society, in which conflict with the company is simply collateral damage. This puts the company in the business of reconciliation.”*

– Corporate Relations Manager, extractives industry

**Our presence can attract armed groups.** Non-state armed groups – whether international criminal networks, local gangs, organised rebel groups or opportunistic warlords – may hope to extort the company or its contractors and suppliers. They may work to become involved in and benefit from the company's supply chain or its social investment projects either to line their pockets or further their cause. Their ability to profit from a company's presence helps them sustain or intensify conflict and may exacerbate dangers posed to local communities or the company itself. Rebel groups also may perceive large corporate projects as an asset of the state and thus a legitimate target for attack. Local businesses and communities may suffer the effects of increased conflict risk or violence, whether they are targeted directly or simply collateral damage in a broader conflict.

Companies' response to non-state armed groups may contribute to the danger. When the rules of engagement for public security providers have not been clarified, increasing company security may deepen the risk to local people of attacks, violence, and human rights abuses. In the Democratic Republic of the Congo, for instance, greater military presence is meant to protect a company from rebel activity. Yet it has also made the local population more vulnerable, as people face not only an increased threat of extortion from rebel groups, but also harassment and extortion by government soldiers who rarely receive their salaries.

Companies' behaviour can reduce the risk of insecurity to themselves and others when they have relationships in which people appreciate the company and feel they benefit from its presence. In one case, the expatriate manager of a sugar mill imprisoned by a revolutionary government was freed when his workers went on strike in his defence. In another, a rebel group regularly consulted local communities and workers about the behaviour of the

company. Positive reports that the company was seen as part of the community led rebels to refrain from kidnappings and attacks against company assets.

### **We have opportunities to reduce existing tensions within communities.**

Just as companies can exacerbate social divisions, they can act to mitigate them. Companies have done this by broadening recruitment processes and investing in education and training for excluded groups. They have supported community-owned or shared – rather than individual – assets such as irrigation systems or community service institutions. And they have brought different groups together to discuss projects, hiring policies, and approaches to community engagement with a focus on fair sharing of benefits.

One company in Nigeria undertook an intensive participatory stakeholder process to assess and renegotiate previous community development agreements, facilitated by an independent negotiation and mediation group. They established approaches to community engagement and distribution of benefits that all stakeholders could agree were fair. The company's effort dissipated the sentiment across communities that some were unfairly receiving more than others. This improved relations among communities and reduced the risk of disruptive action against the company. When we reinforce and reward common interests and identities across groups, we can help reduce the significance of these divisions.

## 2.6 How do we affect core drivers of conflict and fragility?

### THE MESSAGE

*Core drivers of conflict and fragility may include competition for scarce resources and land, pronounced economic and social inequalities, political marginalisation, predatory behaviour by government and security actors, corruption, or power struggles and elite capture of resources. We may believe that our operations can have little influence on such seemingly overwhelming challenges, and that the best we as a company can do is to stay out of the fray. Yet our presence has implications for conflict and fragility, and we can constructively expand our role in ways that address and reduce them. As one senior manager explains, “In the complex market it may be necessary to talk about the value of peace for the company, and therefore about the role of the company in bringing about peace.”*

**Our presence affects social and political conflicts.** The entry of a company into an area where the relationship between the central government and regional authorities is tense and there is disagreement about who has the right to regulate the company may put the company at the centre of a heated political contest. A decision to locate a plant in a marginalised area of a country may help to decrease the disparity between regions and help address a cause of tension. A decision instead to locate in a favoured area may deepen the

marginalisation of other areas. When that favoured area is home to the ruling elite or ethnic group, the company may provide resources and opportunities that help them consolidate control over the state.

In more conflictual settings, taxes or royalties that the company pays to the government can be used by officials for personal gain, to purchase arms, or to suppress critics or legitimate political opposition. Corporate infrastructure and equipment – from roads to runways – are also often available to governments that may use them to gain advantage over rebels or opposing factions.

These impacts on social and political conflicts are often indirect and remote, but they are no less real. The resources, revenues, products and legitimacy that companies bring can influence them profoundly.

*“No matter what planning is done or precautions taken, working in a war zone is a nightmare. It may be important to be there all the same, because the things you build can help ordinary people. In such cases the company’s work is in fact closer to CSR than to business development, even if there is a hope that the company will work there in the future.”*

– Regional Manager, engineering services, Southwest Asia

**Our decisions may reinforce political agendas.** Linked to positive company initiatives may be, as one commentator noted, “another set of unofficial activities taking place underneath the table.” One African country sent a large number of students overseas to prepare them for leadership in the emerging oil industry. The students, however, were all reportedly from the President’s ethnic group, used to perpetuate that group’s control of national wealth in a patronage-driven society.

Companies can easily be drawn into and used to further various actors’ political agendas, and thereby contribute to conflict and instability. When their presence or activities are seen to sustain, reinforce, entrench or legitimise practices that are sources of grievance against governments, companies may find their role has become highly politicised and they are targeted as proxies for grievances against the government.

Astute companies can recognise conflict-prone agendas and take diplomatic steps to avoid being part of them. One oil company in the African country discussed above announced that it would prioritise university scholarships for students whose families live within its operational area – all of whom happen to be from different ethnic groups.

**Our engagement practices influence social and political conflicts.** Whom we choose to work with and how we work with them also shape the dynamics of conflict. As a manager in Latin America warns, “The complex environment can be a bad cocktail of corruption, counterfeiting, guerrillas and drug traffickers. Every interaction builds or

*strengthens someone, whether they are an ally or enemy of positive change.*" Companies may feel pressure or even imagine it advantageous to do business with those close to the regime in power. But association with oppressive authorities through business relationships may help those regimes further consolidate their power and resist calls for accountability or inclusion.

Companies can and often do build on their relationships with a broad range of stakeholders and leverage their position in the country to significantly affect drivers of conflict and fragility. Some companies have published the royalties they pay to increase transparency and accountability of government. Others, including some extractives companies in Myanmar/Burma, have intervened with government to prevent military abuses of civilians in their areas of operations.

Companies' political and economic leverage for influencing governments' and other actors' behaviour is different at different stages of operations. A company may have a relatively high degree of leverage or bargaining power in relation to a host government prior to investment in the country. When this is the case, companies may be able to build conditions for investment into their negotiations with a government. One oil company included a clause in its contract with the government that conditioned the start of its operations on the conclusion of a peace agreement in the country. Once a company invests in the country, however, its leverage to affect change at a national level may decline.

**We can address core drivers of conflict in our own operations.** While opportunities to promote change in broader socio-economic and political problems may be limited for many companies, some can and do find ways within their own operations to address them. In one post-conflict environment, a company leader made concerted efforts – despite initial resistance from company employees – to contribute to demobilisation and reintegration efforts by hiring ex-combatants and building their skills as repair technicians. They all later realised that these technicians were loyal employees who fearlessly took the company's repair services into formerly underserved areas, further normalising daily life for people after conflict.

As explored in the Atlas Copco case (page 198), black economic marginalisation in South Africa is both a historical legacy and a contemporary threat to political stability. As the company shifted its attention from regulatory compliance with Black Economic Empowerment requirements to seeking to effect "genuine transformation" through its business operations, it found a variety of avenues to have positive impact on a major driver of conflict and fragility in South Africa. The more companies are able to integrate positive initiatives to affect key social and political problems into their operations, the greater their contribution to development and peace will be.

**Strategy and execution matter.** Company efforts to increase social and economic well-being or reduce political tensions are often less useful than hoped for because they do not identify or address key drivers of conflict, fragility or poverty such as political marginalisation or elite capture of the state. They often focus on short-term, discrete activities and their direct impacts that may reduce suffering or mitigate the effects of conflict dynamics on people but do little to change the underlying causes. They may arise from pre-packaged or pre-planned projects that are implemented without meaningful local input and pursued under significant time pressure to demonstrate results. This leads to efforts that are piecemeal, wasteful and often delinked from the rest of the company's business strategy and operations.

Three additional lessons from peacebuilding and development practice may be particularly salient to helping companies make a difference on pressing socio-political matters. First, initiatives that focus exclusively on delivering tangible assets or services are rarely sustainable. Second, efforts to effect positive changes in attitudes, skills and knowledge – whether through training programmes that include different ethnic groups or engagement of elites in issue forums – typically make limited difference until they are linked to structural and institutional changes; in more simple terms, learning must become action. Third, working only with those already committed to positive change – for example, groups working for democratic governance – is easier but less impactful than engaging difficult constituencies or dealing with difficult conflict dynamics – for example, armed violence reduction.

*“When the company first considered hiring ex-guerrillas, there was great resistance. But we were concentrating on weaknesses and threats without considering strengths and opportunities. We found out they brought courage, autonomy, and the freedom to navigate neighbourhoods into which others were afraid to go. Now they are some of our best service technicians, loyal to the company for the opportunity they were given.”*

– Regional Manager, consumer goods, Latin America

**Compliance with standards and regulations does not by itself effect change.** Companies may start with a compliance mentality: ensuring that they implement normative and regulatory frameworks that have been developed for businesses, such as the UN and OECD Conventions against corruption or the Ruggie Principles. Doing so, however, is not sufficient to prevent negative impacts on core drivers of conflict and fragility or to make positive contributions towards addressing them.

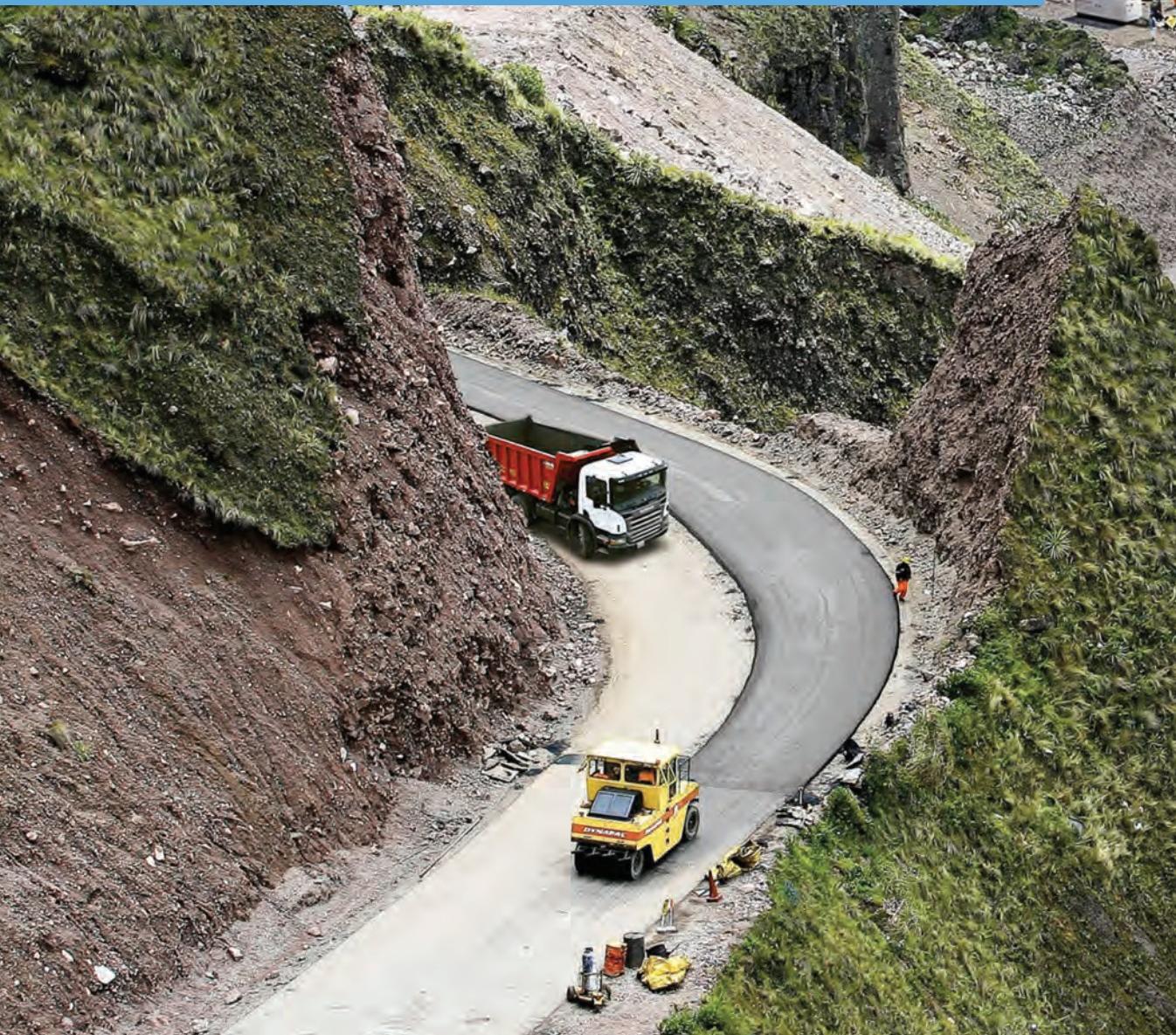
Making a positive impact on root causes may require that the company engage in broader strategic approaches to reshaping social, political, economic or conflict dynamics in cooperation with others. One company in Africa adapted its practices to ensure they supported an ongoing peace process. It instituted a hiring and workplace policy that cut across ethnic divides. It jointly signed an ethics charter with its joint venture partners and forged agreement around a common grievance mechanism.

The company leader may face resistance from headquarters or local colleagues when engaging on core drivers of conflict and fragility, but their impact on the company's strategic and operational goals may be too big not to. As the senior manager whose quotation opened this section continued, “*Employees at first may not like talking about peace, but it is the leader's job to bring them along.*”

CASE STORY:

# *How can we be a force for good?*

*Scania vocational training initiatives  
in Colombia and Iraq*



*Providing heavy trucks that contribute to distribution of goods, construction and mining, as well as buses that transport growing and increasingly urbanised populations, Scania's growth is tied to emerging economies. With significant first-mover advantages in these markets, Scania is present in conflict and post-conflict countries such as Colombia and Iraq. Both to develop its own business and to make its contribution to a more stable operating environment in fragile societies, Scania needed to explore its role as a force for good in peacebuilding environments. The answer required the company to take a hard look at its own competencies, and to explore partnerships that allow Scania and development and peacebuilding actors to achieve more than any could accomplish on their own.*

## *A long focus on emerging markets*

Scania for the first half of its history was largely a domestic Swedish company, exporting only 10% of its production in 1949. Through the 1950s all manufacturing was concentrated in Södertälje. The next decade saw a notable shift. By 1959 exports driven by independent importers accounted for well above 50% of production. In 1962 Brazil became the gateway for the internationalisation of Scania's own operations with a new plant for making trucks, bus chassis and industrial and marine engines. Today more than 95% of production is sold outside Sweden.

Much of Scania's growth comes from emerging markets. In 2000 the company formalised its focus on these countries with the creation of Scania Trade Development AB, a holding company that coordinates its activities in new markets and provides operations with specialised assistance during their development phase. Scania now has Regional Product Centres with facilities for assembly, body work and fitting out locally adapted vehicles in Russia, Dubai, South Africa, Malaysia, Thailand and Taiwan, as well as a new plant under construction in India.

Scania's growth pattern reflects the reality of complex environments: while global economic development is uncertain and volatile, rapid change offers opportunities as well as challenges. Particularly in the heavy transport segment in which Scania competes, there are significant first-mover advantages. Many emerging economies are developing at a rapid pace. Companies and governments in countries emerging from stagnation or conflict need trucks for distribution, construction and mining that support economic activity, as well as buses to transport growing and increasingly urbanised populations. Scania has learned that if it doesn't make early investments, it will cost the company more later on to establish itself as a significant player in its segments. Despite the risks that sometimes-fragile environments pose for the company, Scania is often an early entrant into newly opened markets to expand its production and service capacities.

## *Operations in post-conflict environments*

Colombia and Iraq are two examples of the dual dynamics of opportunity and risk for Scania.

In Colombia private distributors had successfully sold some 600 Scania buses, mostly for urban transport, in the period from 2002 to 2008. This created a critical mass for Scania's direct presence in the country. Scania sales and services centres will grow from the first one in Bogotá in 2010 across Barranquilla (2011), Neiva (2012), Ituango (2013) and then Bucaramanga, Medellin, and Cali in the coming years. Direct sales are strong, with deliveries in 2012 500% higher than the year before. Scania entered the Colombian truck market in 2013 when it delivered 81 tipper trucks to the Hidroituango construction consortium building the country's largest hydroelectric power plant, also supplying on-site technicians as well as parts and driver training.

Still Colombia remains a conflict-prone place. The government started formal peace negotiations with the FARC rebels in October 2012 with the hope of ending armed conflict and mainstreaming demobilised FARC members into society and politics. After nearly five decades, conflict might come to an end. Yet the country copes with criminal groups whose members include former paramilitaries. Large areas of the countryside remain under guerrilla influence or are contested by security forces as the Colombian government steps up efforts to reassert control throughout the country. Colombia is ranked one of the most fragile socio-political contexts in Latin America.



Scania's history in Iraq stretches back more than 50 years. Peak delivery of 3,900 trucks in 1981 made it one of the company's largest markets in the early 1980s. Despite suspending sales during the UN trade embargo, Scania continued to service existing vehicles locally. In 2008 it was one of the first companies to return. Trucks ordered by government customers are assembled in Iraq. A company focused on the private sector – jointly owned by Scania, an Iraqi partner and Swedfund, the Swedish state development finance institution – is building Scania's sales and service network. If Iraq continues to stabilise, the country will within a few years regain its position as Scania's most important market in the Middle East.

This path remains uncertain. The Iraq-Iran war, the Kuwait war, the civil war with Kurdish Iraqis, years of hardship under UN sanctions, two Coalition wars and the ensuing intense violence among groups vying for control make for an unbroken 30 years of instability. The UN Secretary General was all the same able to report "noticeable improvements and progress achieved" in the political and security situation in 2008-2009, helping create the potential for greater social and economic normalisation. Yet violence continues, contributing to severely stressed health and education systems and sub-standard public infrastructure. An estimated two million Iraqis remain internally displaced or refugees abroad. After decades of conflict and instability Iraq remains the eleventh most fragile country on the 2013 Failed State Index.

This juxtaposition of significant business opportunity with fragility and in many places violence underlines the need for the company to both grow its business under difficult circumstances, and to do what it can to help create a more stable society. Scania's leaders are faced in peacebuilding and other fragile environments with the question: How can we be a force for good?

## *Steps forward in Colombia*

As Scania was launching its business in Colombia in 2010, it took a first step. Although a global company it was a start-up business in that country, building from a strong regional base but from zero direct sales and no service infrastructure locally. It was betting on Colombia continuing on its path towards greater stability and development.

Scania was approached by a partnership of the business-led Ideas for Peace Foundation, the International Council of Swedish Industry, and the High Council for Reintegration, responsible for Colombian government policy on social and economic reintegration of armed individuals or groups outside the law. They asked Scania to provide technical training for youth at risk of recruitment into armed gangs or other criminal activity. Wanting both to be helpful and to build the new country team, Scania's country manager agreed.

Twenty-three students selected by the City of Bogotá from so-called Red Zones – neighbourhoods whose demographics suggest youth at high risk – entered into a 90-hour training programme. It was taught by Scania staff, most of whom volunteered their time. Although relatively short, it prepared students well for entry-level maintenance positions. Seventeen passed examinations and received certificates. Six were hired by Scania as apprentices. They are reportedly "motivated and are doing very well" within the company.

With the preparation for stable jobs came other positive dynamics. Students travelling at least 90 minutes sat down to a meal with Scania staff – it was important that they eat to be ready to learn – that also made for a much more personal experience than their

previous schooling could have provided. Students appreciated the attention shown them by professionals from a large international company. Conversations opened about more personal matters. Some students reported the experience as a landmark step in their life and career. Scania colleagues for their part found the students' will and sacrifice touching. In a city where it rains every other day, students "arrived with wet shoes" but "got out their notebooks to learn." They demonstrated a "huge level of initiative and willingness to work." Scania colleagues appreciated that they "as citizens" could provide support. It was win-win for the company, Scania's employees, the students and partners, as well as from a social perspective.

Yet all the same Scania management report they "could be more happy looking back." Managers are confident that students received first-class training and have every reason to believe that new opportunities were created. Yet a partnership that had made a real difference for some had perhaps not reached as many as possible given the resources invested. In retrospect placement was a "grey zone" of responsibility in the partnership resulting in less follow-up than perhaps needed, with no system in place to track what became of those not hired by Scania.

Scania managers began to consider where they were highly proficient: providing training that would develop outstanding technicians for Scania or for public and private workshops across the country, and also personal mentoring within the training environment. But they also needed to realise they had limited capacity to carry out targeted recruitment or run placement services, and of course a company cannot provide psycho-social support.

Eager to continue its contributions yet no longer believing it should necessarily be in the driver's seat, Scania is exploring how it can contribute to a larger and more structured industry initiative called "Pacto Motor." This brings together more than ten companies in Colombia involved in the repair and maintenance of automobiles, buses and trucks with the same ultimate social goals. It is designed to carefully match training to company needs. It works through a long-standing vocational training facility in one of Bogotá's poorest and most vulnerable areas which can provide comprehensive recruitment, training, psycho-social, and placement services.

## *Lessons applied in Iraq*

Scania re-entered Iraq as soon as the security situation permitted, even though the business development team wore flak jackets and was protected by heavily armed security forces during some meetings. The company had been and believed it should again be the market leader. To do so, however, Scania needed to show its pride as a company that had a long history in the country. It had to demonstrate that it was part of building up society and going the extra distance to "do more," rather than simply reclaiming an old crown.

The new Iraq presented a different market in many ways. Where before government orders had accounted for 100% of Scania sales, now there was a growing private sector helping to rebuild the country that needed heavy equipment. There was also an informal service network in place. The country had a large rolling fleet of old Scania trucks. These vehicles dating from before 2000 could be kept running by local mechanics who were "experts on taking care of old Scanias" using scrap and grey market parts. There was no compelling reason for the company to disrupt or anger this functioning network – on balance trademark and other issues were relatively minor and manageable – which in any case helped to maintain the residual value of Scania trucks, the brand value of Scania and small-scale enterprises across the country.



In any case the company had other priorities. Scania needed a new generation of truck mechanics in Iraq who were as much computer technicians as hand workers. It required a service organisation across the country that would maintain Scania's high-technology products at the same level as could be expected anywhere in the developed world.

Separately from Scania, the United Nations Industrial Development Organization (UNIDO) – the specialised agency that promotes industrial development for poverty reduction and environmental sustainability – was working with the Iraqi government to rebuild its vocational training capacity. Decades of conflict had cut access to new technology and ideas from abroad. There was also a compelling need to recruit and improve the skills of teachers. UNIDO worked in Iraq at both the policy level – helping identify the most promising trades and skills for the future economy – and the practical level of rallying technical and human resources to restart schools in all but the most insecure corners of the country.

UNIDO considered its initial meeting with Scania fortuitous: it worked around the world mostly with governments and had limited experience implementing through private sector actors. Yet from the first conversation the value of collaboration was mutually clear. Scania needed a facility and human capacity within Iraq to develop its future technicians. This investment could be leveraged. Rather than training only Scania staff who would number in the dozens, high-quality vocational training could be provided to hundreds.

The broad outline of a partnership took form. A Swedish Transport Academy would be created in the Kurdish region of Iraq where Scania was headquartered. The Kurdish Ministry of Labour and Social Affairs (MOLSA) would provide the building, its running costs and the instructors. UNIDO would provide for management of the facility as well as a bridge to the national MOLSA in Bagdad. The Swedish International Development Cooperation Agency provides 50% of funding for a four-year start-up and proof-of-concept phase.

Scania would provide a master trainer as well as the tools, technology and materials for technical instruction. Just as importantly, the company would provide focus on the exact skills needed for employment. This resonated with UNIDO, which in its other work had seen the value, for example, of training welders for metallic windows and doors for which there was a viable market, rather than on generic welding skills. While Scania equipment would be used, the similarities across modern automobile, truck and heavy equipment manufacturers meant that school graduates could work anywhere in the sector.

As plans took shape further opportunities to magnify the impact of the Academy and its programmes presented themselves. Part of technician training is learning how to use expert systems to identify problems and then source parts needed for repairs. Scania global systems are in English. Computer and English-language training would need to precede instruction on maintenance and repairs. But such training could also be offered to students beyond those aspiring to work on trucks and automobiles. EF Education First – a company headquartered in Switzerland with Swedish roots – was recruited. It donated its English language e-learning platform for students of the Academy. Scania also sited within the Academy its advanced driver training – following EU standards for predictive driving, safety, fuel economy, and the like – so that a broader pool of students could benefit.

With its first classes offered in 2012, the Academy's results are encouraging. Across all programmes there was an intake of 371 students, almost a third of whom were women. They were almost all unemployed youth from 16 to 30 years of age, a demographic at the same time often victimised by and in danger of further perpetrating violence. After one year 58% of the graduates from the first mechanic's course are confirmed employed, with a further 16% continuing their studies. Even though the school is in the Kurdish north of Iraq, some students come from other parts of the country. Plans are underway to build a hostel that will further facilitate student recruitment from other regions. Hundreds have upgraded their practical skills and improved their English language ability to help them find jobs. Some have qualified for overseas scholarships. And Iraq now has its first female vehicle service technicians.

While it takes some management effort, there is value for all players in the partnership approach. For Scania, the Academy provides the future technicians it needs as well as a broader platform for investing in the future of the country. Kurdish MOLSA receives access to technology, equipment and training "simply not otherwise available on the market," helping it prepare for a more prosperous future. While acting in a small way as a bridge between Kurdish and Bagdad MOLSAs, the Academy also provides a model that can be replicated elsewhere. All parties benefit from UNIDO's relationships and ability to provide performance guarantees in contexts where it is unfortunately not unheard of for government programmes to shut unexpectedly and assets to disappear.

The partners agree that, after only a year of operation, they still have much to learn. Selection of students to provide preferences for the most vulnerable, understanding reasons for student attrition and how to address it, and placement services can all be strengthened. In a society where the mentality may still be deeply embedded that the government owes people jobs and that the work day ends at 2:30 p.m., students also need transitional assistance into the world of private sector work. The Academy is actively recruiting a counsellor to provide life skills and psycho-social support. But with growing numbers of student applications, increasing interest from other companies and strong government support, it appears the Academy is on the road to sustainability. The initiative is also helping to inspire action among UNIDO and other company partners in different parts of the world.

## *A role as a partner in peace*

Peace processes sometimes evoke images of conflicting parties engaged in high politics at negotiating tables – leaving it harder to imagine how companies can play a role. While such scenarios may sometimes occur, Scania's experience suggests that there are other, more straightforward processes that also contribute to stability and development. The country manager's readiness to say "yes" in Colombia began to build bridges, both between Scania colleagues and at-risk youth with whom they might otherwise never have positive interactions, and between those youth and a more promising future. The Iraq country manager's simple act of making a "cold call" to UNIDO set in motion a new and robust partnership that would have been beyond the capacity of any one party to deliver on its own, helping many hundreds of students already and thousands more into the future.

Certain principles appear important. First is a willingness to go beyond arguments that the jobs, taxes and local business activities any enterprise generates are the company's contribution to peacebuilding. Scania made measured investments to help meet pressing social needs even before the company achieved strong revenues in local markets. A second is to look for ways to help effect change through core business processes, asking how their effects can be magnified to reach more of the right people. A third is to rally the skills and experience of a variety of organisational role players, despite the heightened requirements for coordination and the probably diminished chances for special recognition. The company has particular capabilities, but also requires those of others to maximise its contribution.

It is probably fair to note that the ultimate contribution of Scania's efforts to the future of Colombia or Iraq will be hard to measure, and probably only meaningful beyond the individuals touched if aggregated with those of many others. All the same the company's experience shows that whether we join an existing effort or launch a new one, we can lead by example in ways that also motivate others to take constructive action.

THIS CASE STORY WAS WRITTEN BY BRIAN GANSON. IT IS BASED ON INFORMATION PROVIDED BY SCANIA.

### ABOUT SCANIA

Scania is one of the world's leading manufacturers of trucks and buses for heavy transport applications, and of industrial and marine engines. Service-related products account for a growing proportion of the company's operations. Scania also offers financial services. Employing some 38,600 people, the company operates in about 100 countries. Research and development activities are concentrated in Sweden, while production takes place in Europe and South America, with facilities for global interchange of both components and complete vehicles. In 2012, net sales totaled US \$12.3 billion and net income amounted to US \$1 billion. (More information is available at [www.scania.com](http://www.scania.com).)

# 3

CHAPTER 3:

## Are we meeting our responsibilities?

*“Applying company policy and values is tricky and takes time. You must be clear that when we step into the office in the morning we all represent the company’s values and adhere to the company’s business culture, ethics and morals.”*

*– Country Manager, industrial goods & services, Asia*

*As leaders in complex environments we must ensure that obligations of the company are met and that the good name of the company is protected. A large number of company policies, voluntary standards to which the company adheres, and host country, home country and international laws and regulations govern our social performance. Understanding the principles they share in common and how these apply in complex environments can help us move beyond mere compliance. We can begin to build a shared, more manageable and more meaningful sense of responsibility inside the company and with external constituencies.*

Entering the complexities of a new market, we encounter a host of laws and regulations that impact our technical and financial performance. We discuss issues such as repatriation of earnings or local property ownership that were never part of the job in our home market. We have likely also been briefed on company anti-corruption policy and how it may be a significant focus of our job. We further know that as a multinational company operating in a complex environment our social performance is scrutinised.

We still may be surprised at how many international standards, host country laws, and voluntary regimes govern our social performance. Each has its own logic and processes which often enough seem disconnected from one another. The community relations team drops off the social and environmental impact study required by our project finance lender under contractually binding “Equator Principles.” The head of security notes that a team will be conducting a review under the “Voluntary Principles.” Government affairs schedules a meeting with the head of an indigenous people’s group wanting to discuss “Free Prior Informed Consent.” Our general counsel announces a webinar on “Ruggie-compliant grievance procedures” the company is rolling out. We may find that new requirements continue to appear and old ones continue to evolve. We may hear people wonder whether all the work required to comply is doing our company or the society much good at all.

As general managers we need expert advice to ensure that company action is consistent with our obligations. But we also need to achieve a common sense understanding of what these mean and how they matter for the company and its stakeholders in our particular environment. Doing so helps us move beyond mere compliance with rules and procedures towards more harmonised expectations inside and outside the company. We begin to align action across the various operational functions and initiatives of the company in ways that help us achieve our full range of goals – technical, financial, legal, reputation and social responsibility – under challenging circumstances.

These questions help us understand the basic principles underlying much of the regulation of social performance:

- 3.1 Do we have permission?**
- 3.2 Are we treating anyone unfairly?**
- 3.3 Are we connected to harm by others?**
- 3.4 Are we acting against corruption?**
- 3.5 Is our respect of others and their rights effective?**
- 3.6 Are we even indirectly involved in armed violence or gross abuses?**

## 3.1 Do we have permission?

*In more stable environments the permissions that determine whether we can operate and the social, safety and environmental performance standards that prescribe how we must operate are determined primarily by different levels of government. In more complex environments we must also be attentive to the voices of people not typically heard in formal processes of rule-making and approvals. If we do not seek their permission up front, we are likely to encounter opposition later. Securing permission consistent with local and international standards is often a challenge, but it is still only a start. Enduring support comes only from demonstrating the shared value from our operations.*

**Formal legal authorisation is only a start.** Business environments are less complex when legal and regulatory processes help shape social agreement. In more stable places the granting of a business license may be the end of a lengthy and elaborate process. National policies were debated and decided long before we build our factory. Zoning boards held hearings involving a variety of local constituencies and negotiated with the company conditions of investment and operations. Certifications were secured from environmental and other authorities, each of which may have had its own elaborate process involving various stakeholders. By the time we start operations, many voices have been heard, compromises reached, and decisions made. Even if people are not happy with all of the decisions, the outcomes are more likely to be acceptable.

In complex environments with weaker rule of law, weaker democratic governance, or weaker government legitimacy, legal and regulatory processes do not tend to play this harmonising role. The fact that we have legal permission to operate from some national authority may be of little interest to anyone else. Many companies do not internalise this need to secure the consent of multiple stakeholder groups to their presence and ways of operating until community members are blocking the gate or – as in the case of ABN Amro (page 103) – international constituencies are mobilising against them. The president of a forestry company operating in a conflict-prone country noted that he operated under the understanding that anyone with a match had a veto over his operations. He had come to realise that consent rather than legal authority was the only secure basis for peaceful relations and operational continuity.

**Permission is national, local and sometimes international.** The rules we are required to follow to obtain effective permission may vary at different levels of society. A senior board member of a company with operations throughout Latin America suggested, “Ask your advisors to tell you what the regulations require or demand. Beyond this, have them tell you what is expected and not just what is legal. You need to understand the way business is done and which rules apply.” This comment suggests that people’s sense of whether or not we are playing fair – and whether or not they will support us – is shaped not only by legal compliance, but also by local rules and custom.

We must certainly implement company policies and follow the law. But consent to our presence and support for our operations will grow to the extent that we respect local processes and institutions, formal and informal. One manager noted that, “*While a legal framework must be negotiated with the national government, it is important not to confuse that with the agreement required from directly affected communities and their leaders. You should assume that customary law takes over 15 kilometres outside the capital and act accordingly.*” Different formal and informal institutions may claim a role in company decisions that may have important economic and political implications.

For particularly difficult environments, there may also be international constraints on business operations and relationships. Home country watch lists and international sanctions may exclude certain people and organisations from our business network. The UN alone maintains more than a dozen sanctions lists pursuant to various Security Council resolutions, each with its own measures that apply, the criteria for listing, and procedures for seeking delisting or exemptions to the measures. Other legislation, such as provisions of the US Dodd-Frank Act concerning conflict minerals, create specific operational requirements as conditions for doing business in particular places.

*“The new company may be a great idea, but creating the legal entity or securing the key work permits may take years. If you want your brilliant strategy to become reality, you can't underestimate the practical challenges.”*

– Regional Manager, industrial goods & services, Middle East & North Africa

**Indigenous peoples may merit special consideration.** This is because in many cases, governments do not respect traditional forms of landholding. Often they fail to demarcate, survey, and title traditional lands on behalf of indigenous communities. As a result, government permissions may not be sufficient to protect their rights and interests. In some cases governments may deny that an indigenous community exists at all separate from its members’ national citizenship. They may pressure companies to work through formal government structures rather than consult with indigenous communities directly.

Indigenous rights are increasingly recognised by UN instruments and voluntary industry guidelines such as those of the International Council on Mining and Metals. These rights may also form part of a company’s contractual obligations with a project finance lender operating under the Equator Principles or the Performance Standards on Environmental and Social Sustainability of the International Finance Corporation (IFC). These require companies in complex markets to obtain the free, prior, and informed consent of the communities they impact, whether through taking of lands or disruption of traditional forms of social organisation or livelihoods.

Failure to respect indigenous rights can have informal consequences when communities protest company operations. Formal consequences may arise in front of international tribunals. One company faced interruptions and delays of its \$20 million investment in

Nicaragua when an indigenous people contested the company's right to build on disputed land. Although it was found that permission had been given to the company by the government, the Inter-American Court of Human Rights required proper recognition of the ancestral land rights of the indigenous people.

***Enduring support for our operations comes only from shared value.*** National governments and the broader population pay attention to how much value from our operations leaves the country and how much stays. Profits made by companies in complex markets may be perceived as exploitative, predatory, and unfair. Bangladesh's government launched a commission of inquiry when a major telecommunications operator achieved a profit margin of 53%, significantly higher than any of its other global business units. The Africa Progress Report 2013 produced by a panel of ten prominent figures including former UN Secretary General Kofi Annan determined that firms that shift profits to lower tax jurisdictions cost Africa \$38 billion each year. It also cites a review in Zambia which found that 500,000 copper mine workers paid a higher rate of tax than did major multinational mining firms between 2005 and 2009.

Companies may believe they are acting within the bounds of the law and that risk or other factors justify such outcomes. But permission to start or continue operations does not turn on what we believe. Unless such issues are resolved to the satisfaction of local stakeholders, both legal and social licenses to operate are at risk. Permission granted can also be retracted, as demonstrated by stalled and cancelled projects in every corner of the world.

*“Leaders need to know the rules, and to avoid the temptation to work around the rules. This is not only ethics; it is sound management. The leader can focus on building a business, or on playing games. But probably not on both.”*

– Country Manager, telecommunications, Latin America

***Companies can future-proof their operations.*** Companies increasingly realise that governments change, often surprisingly abruptly. Noted one manager, “*If you are seen to be a favourite of government, and government changes, you are now out of favour, too.*” Particularly when dealing with an unpopular regime, a company may receive pressure from both the government and opposition. Managers report that opposition groups may not want the company to help the current government succeed even in delivering needed services. The government in turn may suspect that the company is more sympathetic to their opponents than it is to them. Any company investing in a complex environment for the long term must also be conscious that regions or communities that were once marginalised can find their voices and utilise new ways to assert their interests.

Under such circumstances, businesses future-proof their operations when they establish themselves as positive contributors to the local community and the broader society. In countries undergoing particularly difficult transitions, there may also be significant first-mover advantages. As one manager noted, “*People will remember who came first to help them, when others couldn't or wouldn't.*” When different constituencies question the company and its motives, we must demonstrate that we are promoting the country's welfare and working to develop its potential.

## 3.2 Are we treating anyone unfairly?

*The notion that all people should be treated with dignity and fairness has roots across human culture, national constitutions, and international law. Yet in many parts of the world, respect for basic human dignity and freedom from discrimination based on personal characteristics such as race, religion, ethnicity, sexual preference, disability or gender may not be the common experience. For us to meet both our own ethical commitments and our obligations under host country, home country and international standards, we must learn to make sense of and navigate the application of these principles under the specific conditions of our particular complex environment.*

### ***Companies are responsible for fair and non-discriminatory treatment.***

International human rights standards caution against discrimination through distinction, exclusion or restriction on the basis of personal characteristics. This principle of non-discrimination is spelled out in core UN human rights treaties including the Convention on the Elimination of Discrimination against Women, the Convention on the Elimination of Racial Discrimination, the International Covenant on Civil and Political Rights as well as International Labour Organization Conventions and Declarations. Non-discrimination is also underlined in industry-specific initiatives such as those of the Fair Labor Association.

Since legitimate distinctions are made among employees on a continuous basis, attentiveness is required across all phases of employment including recruitment, hiring, benefits, promotion, discipline, dismissal, and severance to ensure that these do not constitute discrimination. In a complex environment where principles of non-discrimination are less firmly embedded this may be more challenging. Nepotism, cronyism, and other considerations that do not pertain to the candidate's merit and qualifications can be more likely to compromise employment-related processes. Considerations may sometimes include and reflect long-standing bias and bigotry.

In light of such realities, the company can reinforce commitments to fairness, for example, by ensuring that it provides similar opportunities for professional development to men and women. One airline performed a company-wide review of compensation for its employees in 80 countries to identify gender-specific discrepancies. As a result, 350 female employees received pay increases as part of compensation equalisation measures. The company also instituted protections for women on maternity leave and rules to ensure that they would benefit equally from pay increases. Such action can diminish long-term discrepancies in compensation. It may also contribute to gender equality in leadership and upper management positions within the company.

### ***Companies are responsible for the basic dignity of their employees.***

Various benchmarks can be used to assess a company's conduct towards its workers. Relevant standards include the Universal Declaration of Human Rights, the International

Covenant on Social, Economic and Cultural Rights, the OECD Guidelines on Multinational Enterprises, and ILO Conventions including the ILO Equal Remuneration Convention. These standards stipulate that everyone who works has the right to just and favourable remuneration and thus a life of human dignity. The Guiding Principles on Business and Human Rights also call on companies to respect the basic human dignity of their employees.

Wages serve as an indicator of how companies treat their workforce, including employees and subcontractors. In most cases international companies pay more than the locally mandated minimum wage. Yet this may not represent a “fair wage” or a “living wage.” In complex environments, wages that meet a “basic needs basket” accounting for household expenditures such as food, housing, health care, transportation, education and childcare demonstrate respect for employees’ basic dignity.

One drug manufacturer has addressed the living wage issue throughout its global operations. It began a concerted effort to implement a living wage globally as part of its commitment to fair working conditions. In consultation with Business for Social Responsibility, the company developed a methodology to determine living wage rates in over 90 countries where it does business. The company then aligned the pay of nearly 100,000 employees with living wage levels. Such approaches help stem the “race to the bottom” of international operations attracted by excessively low wages.

*“The company may be committed to gender equality. But it will need to set goals differently for the global headquarters in Europe and for a market where gender equality is less real. The key is in both places to make sure that values have become performance objectives.”*

– Social Responsibility Manager, defence sector

**Migrant populations are particularly vulnerable.** International law recognises the vulnerability of migrant populations. Relevant human rights standards establish that migrant workers must not be subjected to exploitative working conditions. This benchmark is codified in multiple ILO conventions; the International Convention on the Protection of the Rights of All Migrant Workers and their Families; and the Convention Against Transnational Organized Crime and Protocols Against Human Trafficking and Migrant Smuggling. The OECD Guidelines on Multinational Enterprises also identify migrant workers as a vulnerable group that may require particular attention by companies.

Gross abuses against migrant labour in the form of enslavement, economic coercion, forced labour, debt bondage, and human trafficking are unfortunately common in complex environments. One example is the Persian Gulf region where the bulk of the workforce is comprised of foreign nationals. In the construction industry workers from India, Bangladesh, and Nepal dominate. These workers routinely experience confiscation of their identity documents, underpayment of wages, and demands for recruitment fees. In addition,

they live with severe restrictions preventing them from resigning, changing employers, or even leaving the country without their employer's permission. In most cases, these migrant workers do not enjoy freedom of association. Even if a company does not employ migrant workers directly, it may be indirectly exploiting them in its operations.

In complex environments companies can take measures to respect the rights of migrant workers within their workforce. This begins by treating migrant workers and non-migrant workers equally. It also means adopting measures that ease the particular vulnerabilities – due to language, culture, difficulties seeking recourse for grievances, or obstacles to changing employers – that migrant workers often face.

***Companies are also responsible for acting with fairness towards the communities around them.*** Standards of fairness extend beyond the company's own operations and value chain. International standards call upon companies to prioritise community health, safety, and security to ensure that risks from company activities are not shifted onto those who can do little to protect themselves from harm. As one example, the International Finance Corporation's Performance Standard No. 4 requires companies to take preventive measures regarding infrastructure and equipment design. It also sets standards for hazardous materials management and safety.

Some argue that there is a presumed consent of communities in complex environments to business operations at lower standards of health, safety or environmental performance than allowed in developed countries because people want jobs or other benefits. Such thinking belies the reality that decisions are often made by governments that have not prioritised community interests and that communities are in a poor position to assess risks. Regardless of the local context or law, a company never has permission to compromise the safety and reliability of its business operations. Companies are increasingly held accountable when operations below global standards result in violations of people's rights to life, health, food, water, or livelihoods.

*“You are constantly up against the challenge of local practice. Not only a supplier may like excessive overtime, but also the local government and even the workers' union, despite clear local law to the contrary.”*

– Country Manager, industrial goods & services, Asia

***Where rules and their enforcement are weak, ethics matter even more.*** One manager noted that, “110% compliance with laws and regulations is critical in the complex environment. Even if local authorities are not attentive today, someday they will be. And when you come under scrutiny, you want to have nothing to hide. If you're flouting laws, it's only a question of time before your reputation is damaged. Ducking and diving around the rules creates high risks for the company.”

Yet operating to the standards of conduct that maintain support for the company and compliance with international standards may be challenging. A review of a Scandinavian company concluded that the same team operating under the same policies and procedures tended towards a lower standard of safety in less developed countries. Such dynamics may arise where people are influenced by the sub-standard conduct around them. As another manager explained, *“Placing a group of people in an amoral context tends to erode their values. They lose their bearings and ability to distinguish right from wrong.”* It falls upon company leadership to increase vigilance and engagement.

As the CEO of a company with operations in over 70 countries advised, *“You have to follow the highest legal or moral standard at all times. You also have to make sure your actions speak to the values of the company.”*



#### COMPANY TO COMPANY

## What are we accountable for?

### ABN Amro in Indonesia

Grasberg Mine in West Papua, Indonesia is one of the most mineral rich in the world. It was developed and operated from the late 1960s by the American company Freeport McMoRan through its Indonesian subsidiary PT Freeport (Freeport). The mine eventually employed nearly 20,000 people. Revenues from Grasberg were one of the most important sources of tax revenue for the country.

The funding for Freeport's Indonesia operations came from over 40 banks, including ABN Amro (ABN). ABN is a Dutch financial giant with a global footprint and ties to the region from the Netherlands' colonial days. As a passive investor, ABN had no control over the day-to-day operations of the mine or its surrounding activities. It had released credit for the project based on a financial assessment, and the hugely profitable mine from that perspective fulfilled its expectations.

Yet the mine had been problematic from the beginning. Freeport signed the contract of work with the Indonesian government in 1967, two years before the formal Indonesian takeover of control in Papua from the Dutch colonial government. The contract gave Freeport power to take land and move populations, paying only for people's houses or other permanent improvements. Even the contract of work updated in 1991 made no provision for social impact assessment and relieved Freeport of responsibility for complying with most environmental laws.

Severe human rights abuses including torture, rape, physical intimidation and indiscriminate killing around the Grasberg Mine came to international attention in the 1990s. When indigenous advocates stood up for their rights for fair compensation for their land, for environmental protection of rainforest that included community hunting ground, water supplies, farmland and gardens, and for protection of their cultural rights and sacred lands, they were met with brutal force by the Indonesian army. Freeport directly supported the Indonesian military presence and its own security with weapons, ammunition, guard houses, barracks and other funding.

Friends of the Earth, an international NGO committed to environmental issues, had unsuccessfully attempted in and out of court to pressure Freeport in the United States. It turned its attention to ABN in the Netherlands. It published a brochure entitled, “Do you know what ABN Amro is doing with your money?” It gathered a memo with signatures of 800 ABN clients denouncing Freeport’s behaviour, and convinced other Netherlands corporations to send standardised letters to the bank opposing the financing. An activist from West Papau stated at ABN’s shareholder meeting, “My people have been killed by ABN Amro’s investments.” ABN Amro became an accomplice to the events in Papua in the Dutch press.

With the Grasberg Mine a small piece of an enormous global portfolio, ABN’s Board had been caught unawares. Its Chairman finally responded. ABN dispatched its Director General of Risk Management to West Papua to personally compile an internal report on the mine’s impact. That report validated the accusations made by Friends of the Earth and others. It stated that, despite financial viability, the Grasberg project should have never have been approved based on its social, human rights and environmental damage. ABN began to disentangle itself from the Freeport loan.

Internally, ABN invited Friends of the Earth to help draft a new risk analysis policy. In order to avoid involvement in similar projects, ABN added social and environmental screenings to its traditional financial reviews of the bank’s clients and projects. Externally, ABN allowed the NGO to publish its internal report. It used its role as a primary financier to place pressure on Freeport, and rallied other Dutch banks and businesses to its cause.

ABN also became part of global efforts not to repeat the mistakes of the Grasberg Mine. The head of risk at ABN during the Grasberg Mine crisis went on to work with the CEO of the International Financial Corporation to develop the Equator Principles, a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing. The Principles have since been adopted by hundreds of global financial institutions, including ABN.

ABN had learned that information travels quickly outside an organisation, but too often slowly inside. Bad news especially will travel quickly in an age of social media and increasing internet penetration. The company needed to put itself ahead of rather than behind public information. Courageous management and clear corporate governance were required to ensure that managers deliver good news and bad, with rigorous assessments of difficult situations.

ABN also learned that independent analysis was crucial, even if it was not required. It could not blindly trust internal reports from clients, but rather needed capacity to go on site and see for itself how operations take place. It also needed to learn to respect the opinion of NGOs, local politicians and intellectuals. The large corporations and national governments with whom ABN typically interacts, it found out, did not necessarily serve interests that accurately reflect the rights, needs and concerns of a local community. NGOs especially had deep ties to local communities and provided invaluable information to senior management.

ABN found it that it was untenable to apply different business standards to its suppliers, clients, and other business partners in different parts of the world. ABN Amro had no legal accountability for environmental and social practices of an American company taking place thousands of kilometres from the Netherlands, or for human rights abuses carried out by a national government. Yet the Grasberg Mine became a critical threat to one of the world's most prominent banks. ABN learned that it was accountable for what its depositors, customers and others said it was accountable for.

ADAPTED FROM A FLETCHER SCHOOL CENTER FOR EMERGING MARKET ENTERPRISES REFLECTION FROM PRACTICE BY HERMAN MULDER, FORMERLY OF ABN AMRO, WITH JONATHAN MARTIN OF THE FLETCHER SCHOOL.

### 3.3 Are we connected to harm by others?

*International and national standards increasingly recognise responsibility for corporate complicity in harm done by others. We can expect to be held accountable for business relations with unsavoury governments, contractors and clients, be they tied to our operations or end users of our products and services. We may also be responsible for standing by when we should have taken action. We often need to apply heightened scrutiny to overcome challenges exacerbated by an environment of constrained economic opportunity, weak rule of law, or a culture of impunity. We may find even more value when we move beyond a policing mentality to support local ownership and a culture of compliance.*

**We may be connected to harm by government.** As the OECD Guidelines for Multinational Enterprises note, enterprises must respect the internationally recognised human rights of those affected by their activities. Even when governments act contrary to international human rights obligations, “this does not diminish the expectations that the company respect human rights.” Likewise, the Guiding Principles on Business and Human Rights caution companies against contributing to adverse human rights impacts caused by other parties, including governments.

In assessing connection to harm by others, the Guiding Principles and Commentary identify the relevant standard for aiding and abetting human rights violations as “knowingly providing practical assistance or encouragement that has a substantial effect on the commission of a crime.” Governments may engage a private technology company, for example, to monitor individual online activity. This has led in documented cases to identification and tracking of political dissidents. It has led to their arrest, prolonged detention, physical maltreatment, and even torture.

Lawyers will fight over whether such assistance violates the US Torture Victims Protection Act or the OECD Guidelines on abetting torture. Yet most people will perceive a difference between a telecommunications network that is used by all and purposeful targeting of unpopular individuals to silence them in violation of their broadly recognised rights. Common sense may go a long way toward protecting both the reputation and the integrity of the company. It may be a reminder that no transaction may be truly “arm’s length” in a complex environment.

**We may be connected to harm by our own agents.** Misconduct by our representatives becomes our business, too. According to the Report of the International Commission of Jurists Expert Legal Panel on Corporate Complicity in International Crimes, companies must not “enable, exacerbate, or facilitate” abuses committed by others. Otherwise, the company may be held responsible when it knew or should have known about violations committed by its representatives or agents.

Circumstances of a complex environment may require heightened vigilance. A company anywhere in the world may find out that an unscrupulous hiring manager has been demanding sexual favours or side payments as a condition of employment. In situations of constrained economic opportunity, weak rule of law, or a culture of impunity, however, such occurrences may be more frequent and less likely to be reported.

Yet the dynamics of international managers rotating in and out of complex environments, company leaders who lack local language skills, or large operations in distant regions while senior management remains in the capital can all lead to lax oversight. One mining company experienced a violent confrontation that led to a shooting death. Its investigation uncovered that its own supervisors had been selling informal mining “rights” for operations that were carried out at great risk to community health, safety and security. These activities were carried out in clear view of mine managers’ office windows.

Such cases remind us that we may want to trust our instincts as leaders who have worked in well-run organisations elsewhere in the world. If it doesn’t look right or feel right, there is probably something wrong.

*“Saying ‘no’ is perhaps the most important part of your job in a complex environment. Others in the company focus on developing business. You must ask whether that business makes you complicit in wrongdoing.”*

– Country Manager, construction services, Latin America

**Turning a blind eye does not distance us from our connection to harm by others.** It is our responsibility as company managers to be aware of our potential connection to harm by others. We are responsible if we know or should know about our own link to another party’s misconduct. Benign neglect and ignorance are not effective defences either legally or morally. One country manager put it succinctly: *“The era of ‘don’t ask, don’t tell’ with local suppliers or distributors is over. Their ethics are your ethics. Their actions are your actions. That’s the practical reality.”*

Ongoing monitoring and evaluation require rigorous systems for evaluating past, current, and potential business partners. As one global manager with an extractives firm noted, *“In our business, one of the areas of greatest vulnerability is our agents and the people we hire to represent us.”* Such agents may work on a commission basis to bring in business and close major deals. To minimise related risks, this particular company has internal account managers and an automated database to track each agent’s activities. It also conducts on-site audits to get a complete picture. For high-risk situations, the company’s CFO and General Counsel meet together with the agent in person at least once a year. As noted by a country manager in Latin America, *“The leader must decide whether an opportunity in a complex environment might entangle the company with unethical actors.”*

**Clear expectations play a role.** The Swedish National Contact Point under the OECD Guidelines for Multinational Enterprises in one case scrutinised a Swedish company

and instructed it “to remedy the lack of knowledge of the contents of the OECD Guidelines at subsidiaries and among personnel.” This reflects the growing sense that norms and standards for social performance need to be reinforced and understood throughout operations, including those of business partners. Some companies realise that new business relationships present an opportunity to emphasise the firm’s commitments and values. Clear expectations about the relationship and consequences for violations of any baseline expectations can be outlined from the outset.

Companies increasingly make social performance an explicit part of their contracting process. This typically includes anti-corruption provisions, support and respect for human rights, and ethical guidelines. Yet some company employees in complex environments describe such processes as frustrating, time-consuming paper-pushing imposed by headquarters that have little real-world impact. Others describe such processes as highly positive interactions that reinforce the quality of the company in the minds of its partners and that encourage them to take a higher road. The difference, said one manager, is leadership. *“Positive reinforcement every day is critical, led by example.”*

*“No company operation and no issue is ‘far away’ any more. Media and issue organisations have growing investigative capacities. You need to have measures in place to find out the things that are not so obvious before they are brought to your attention.”*

– Regional Manager, industrial goods & services, Central & Eastern Europe

**We may need to take responsibility for more of the value chain.** Sprawling supply chains may expose companies to more risk of abuse by others or more harm to workers associated with the company’s products and services. One global agribusiness company estimates that it works directly with nearly 700,000 farmers, creating significant legal and reputation risks to manage.

Some companies believe they stand to benefit by taking more ownership over production and distribution processes. While this can be appropriate in some cases, it must also be noted that integrated value chains may reduce some risks but increase others. Sourcing from large commercial farms rather than smallholder farmers, for example, may reduce the risk of child labour. But it may at the same time increase the risk that large-scale conversion of land to commercial production will displace communities. As always in a complex environment, challenges and solutions are context specific.

Some companies have championed what they call “sustainable internal alignment” in order to develop more viable supply chain solutions. The focus shifts from the policing mentality associated with monitoring suppliers’ compliance to creating a cross-functional culture of embedded compliance within both the company and its supply chain partners, large and small. This approach aims to achieve a holistic progression where suppliers take natural ownership over their own labour and environmental conditions. In the most positive cases, rights and responsibilities can become more locally owned and locally driven.

## 3.4 Are we acting against corruption?

*Corruption refers to improper and usually unlawful conduct intended to secure a benefit for oneself or another. Corrupt practices such as those outlined in the UN Convention Against Corruption involve the promise or acceptance of undue advantage, though corruption may take many other forms. Corruption is increasingly understood as a human rights concern that undermines the security and development of large numbers of people and retards the establishment of legitimate and capable government. While we first and foremost need to manage the supply and demand sides of corruption within our own enterprise, we also have a role to play in its more systematic reduction.*

**Corruption is a significant driver of conflict, marginalisation, and fragility.** Corruption harms poor people more than others as it stifles economic growth and diverts funds from education, health care and other public services. “Corruption is a global threat. It is a serious roadblock to economic development,” said the Executive Director of the United Nations Office on Drugs and Crime, Yury Fedotov. “Corruption aggravates inequality and injustice, and undermines stability, especially in the world’s most vulnerable regions.” The UN High Commissioner for Human Rights, Navi Pillay, told the UN Human Rights Council that the “money stolen through corruption every year is enough to feed the world’s hungry 80 times over while bribes and theft swell the total cost of projects to provide safe drinking water and sanitation around the world by as much as 40%.”

Corruption is not only about money misdirected or opportunities lost. The Arab uprisings – launched when a Tunisian street vendor set himself on fire after long suffering police harassment to extort bribes – underline the links among corruption, grievance and socio-political conflict. Government corruption is a frequent rallying cry for armed opposition groups. Where corruption results in pollution from ignored environmental standards or destruction of forests and fisheries from unregulated exploitation it also has health and environmental costs.

**Corruption takes many forms.** The most common image of corruption is perhaps the payment of money to a public official to accelerate a permit, overlook regulatory violations, or win a public tender. Election-rigging and vote-purchasing as well as payment of bribes to legislators also work to undermine government functioning and legitimacy. In both Africa and Eastern Europe cases have been documented of widely applied “market prices” for votes or other parliamentary favours.

Yet one senior manager noted that it could not be assumed that corruption was a problem of public officials. He reported that in his Latin American city the problem of public sector corruption had been largely addressed. Corruption among private sector suppliers and their business customers troubled him most.

More difficult to characterise and address are the steering of direct and indirect benefits to networks of people of the same ethnic group, region, or political affiliation. Such activity underlines corruption as a socio-political phenomenon. Where group identities and political systems don't overlap, it is much easier to justify diverting resources from "them" to "us." In cultures of obligation, it may even be socially required to help someone from the in-group even at the expense of someone from an out-group. Because of such dynamics, there is little evidence that corruption can be eliminated through compliance efforts alone. It is rather a process of social change across organisations, institutions and groups working to create a new, shared identity around common interests that include anti-corruption.

**Simplicity and standardisation are tools for reducing corruption.** The more complex agreements are on paper, the more room there is to manipulate their terms through creative interpretation that can give rise to kickbacks, bribery or other corrupt practices. Simplifying and standardising taxation, licensing and concession agreements between corporations and governments can go a long way towards reducing corruption risks. Such strategies can also be applied to agreements between private actors.

Requests to modify standard terms and conditions may also merit scepticism. One supplier's customer wanted different deliveries that were part of the same order to be shipped in different ways on different routes. When the customer then asked for different invoicing procedures for each, this was enough for the company selling the goods to say, "No thank you." The country manager explained, "*We had to keep it simple and stick with the initial agreement even though our customer was not happy about it.*" Curiosity based on business acumen can be cultivated among employees. One manager noted that they always tried to ask themselves, "*Why is this payment being made in this currency to this country?*" Corrupt intent behind even innocent-looking transactions can be surfaced by proceeding with caution.

Standardising our response to any hint of corruption can also simplify our job. Noted one manager, "*If you make no exceptions, then corruption becomes over time less and less of an issue.*"

*“Corruption makes it impossible to control quality or to develop business processes. It is never the case that someone is corrupt only about money; they are also corrupt on materials, methods and time.”*

– Purchasing Manager, telecommunications, Former Soviet Union

**Proactive measures can make it easier to address corruption risk.** Advisory opinions can help employees in complex markets navigate individual challenges – particularly in grey areas bordering on corruption such as processing fees that may amount to facilitation payments – when they arise. By encouraging discussions about corruption-related issues, company leaders can minimise the challenges that confront individual employees and clarify what is or is not unethical or illegal. One global construction company has a policy board in each country where it operates. Business units or individuals can submit questions to the board about how to handle particular corruption-related situations or dilemmas.

Another manager described the various channels in his company that employees can use to report their concerns about corruption “and practically anything else.” These channels are also open to spouses, business partners, suppliers, and anyone with a connection to the company. The company is implementing a programme where an ombudsperson “will hear you out and say, ‘Okay. That does sound like a problem. If I were you I would consider doing X, Y, or Z. So let’s think out loud here about a possible course of action that you could take now.’” This is not a legal compliance approach, but rather a confidential sounding board for employees and partners to talk about any problem. Making issues discussable leads to better decisions and outcomes.

*“A company can be barred from doing business in major markets because of transgressions in a relatively minor market. This is no longer about good citizenship. The core business risk is now enormous.”*

– CEO, engineering services

**Collaborative action matters.** Since widespread corruption is reflective of broader socio-political realities – going well beyond individual criminal acts or ethical lapses – it requires collective action to remedy. The OECD notes that private enterprises have an important role to play. They can contribute to local chapters of watchdog groups such as Transparency International or take part in local anti-corruption campaigns. They can participate in Publish What You Pay and other transparency initiatives that assist local citizens in holding officials at all levels of government to account for their handling of revenues and expenditures. By reaching out to civil society and government actors, companies can contribute to the anti-corruption dialogue and mobilise coalitions for change.

Sometimes a company is in a position to take public acts of courage. One furniture company was embroiled in a major corruption scandal in Russia after it came to light that the company had been paying bribes in order to open its stores. A number of its directors were later dismissed. As part of its clean-up and atonement efforts, the company threatened to halt all future investment in the country until requests for bribes ceased. It proceeded with its schedule for store openings by using portable generators when obstructionist government representatives wouldn’t supply municipal power. This public stance was encouraging to others within Russia, where anti-corruption coalitions are growing yet still fragile. The company is likely also less vulnerable to corrupt demands.

One manager noted, “It is not easy to be a Lone Ranger against corruption. It is a hard job and often isolating. Yet we are part of a collaborative initiative with other companies in our sector. This makes a difference.”



#### LEADER TO LEADER

## How do we deal with corruption?

Corruption was the challenge most frequently raised in interviews by managers working in complex environments.

Leaders note that widespread corruption is an enormous drain on management time and energy. They need to invest in enhanced systems to prevent corruption, including otherwise-undesirable centralised decision-making. In a corruption-prone environment, it is a major part of the leadership task to reinforce integrity within company operations and work with colleagues to do the same.

Managers reflect that corruption complicates their jobs in other ways. It can create limits on the business that can be pursued. One manager noted that he needed to accept – and help headquarters to understand – that his actual market opportunity was half of the apparent market size because there were too many parties with whom the company could not do business in any ethical fashion.

Corruption also complicates review of company performance and reflection on its improvement. For example, a bid may have been rejected because of corrupt practices. But the truth may be that valid technical or financial considerations resulted in the lost business. Corruption creates additional noise in the system and additional demands on leaders to dig into what is actually going on.

Many leaders took an activist stance vis-à-vis corruption. “It is not acceptable to simply say that an environment is corrupt,” said one. “People do change.” The broad experience was that companies can make a difference. “It may take two years of work inside and outside the company, but eventually people will accept that the company can’t and won’t do business any other way.” One must be absolutely clear, internally and externally, about how and why a company does business in a certain way, one manager argued. Then outsiders will stop asking for payments, or for contracts to be designed in complicated ways that allow for others’ corrupt payments. Over time, corruption becomes less and less of an issue.

Some were even more dogmatic. One said, “Corruption is driven by the supply side. Don’t pay, and it goes away.”

Two scenarios appear to help a company in its anti-corruption stance. The first is when it offers cutting-edge technology for which there is less possible substitution. The other is when it offers capacity to improve complex business processes in ways that demonstrate the value of real partnership. Whatever the global company strategy may be, managers say that the company is unlikely to compete ethically in low-tech segments driven by buyer-seller relationships in complex markets. In a market segment where price and relationship considerations predominate, corruption flourishes. So a company might need to narrow its focus from all of the segments in which it would like to grow to those where it is absolutely needed. This creates negotiating room to make positive changes in how the system works.

Managers noted that taking sound and ethical business action is sometimes a calculated risk. The company’s stance against corruption may be disrupting important personal and power networks. People may be tempted to act against the company, to the point of threatening to deny contracts or close the business down. In such situations it helps to remember the other side of the equation. The company’s products and skills may be needed. Its presence may provide important market balance against a competitor. A leader needs to recognise the weaknesses but also the strengths of the company’s position.

Leaders spoke of the tangible value of anti-corruption efforts. They noted that when ethical behaviour is practiced without exception, employees take pride in the company they work for and what it means for their country. They more than anyone know the impact of corruption on their societies. The ethical company recruits and retains better people who are willing to work harder for the success of the company.

They also noted that one can’t run a high-performing business entangled in corruption. Corruption makes it impossible to control quality or to develop business processes. Corrupt parties will also never be real partners. It is never the case that someone is corrupt only about money, a manager observed: they are also corrupt on materials, methods and time. From this perspective, it is simply not practical to do business in an unethical way.

In the aggregate, leaders found congruence between the job of ensuring stable growth for the company and the job of shaping the business environment in positive ways. It does require a choice from time to time to make lower short-term profits by declining to do business with a corrupt party. But as one leader stated, “You can focus on building a business, or you can focus on playing games. But you probably can’t focus on both.” The leaders interviewed found it much more rewarding – personally and for the company – to build sound businesses.

## 3.5 Is our respect of others and their rights effective?

### THE MESSAGE

*Companies increasingly have policies and procedures intended to obtain national and local permissions, ensure fair treatment of people, be aware of connections to harm by others, and act against corruption. Ongoing due diligence helps ensure that these effectively prevent and address the direct or indirect negative impacts of our presence and operations. It helps us determine the local meaning of universal principles. Our company and those around us benefit when it is easy for people to raise issues and concerns and work together to resolve them. Where there are problems our response must be both big enough and fast enough to protect others and their interests.*

***Due diligence is required on an ongoing basis.*** Emerging due diligence norms identified in the UN Guiding Principles on Business and Human Rights, the International Finance Corporation Performance Standards, and a variety of multi-stakeholder initiatives such as the Voluntary Principles on Security and Human Rights require companies to identify, assess, and mitigate their adverse impacts. They also call on companies to track their responses and then communicate them publicly. Due diligence efforts can stop harm, demonstrate that we care about the impact of our activities on others, and even mitigate risks of legal liability when we can show that we were not wilfully ignorant about our impacts.

One manager reflected that companies are often better at thinking about risks to others before operations begin. Detailed environmental and social impact assessments may inform the Board of Directors' decision whether or not to approve an investment. But operations managers may be less attentive to direct and indirect impacts the company has on the people and environment around them. Another manager noted that company staff were rarely surprised as individuals by problems – “*someone somewhere saw it coming.*” Yet those individual insights didn’t result in management action. Due diligence from this perspective is not a single process or function. It is leadership attitude and management attention that keep all company agents attuned to impacts of the company and encourage and enable colleagues to raise issues within the organisation.

***We must translate universal principles into local performance.*** Simply exposing company employees and partners to abstract concepts such as fairness, dignity, or non-discrimination gives little guidance about needs or expectations within a particular environment. Company employees, partners and agents need clarity about what these concretely mean to us and others here and now. Such granular focus increases our capacity to proactively avoid actions that hurt others or deny them their rights and dignity.

The discussion might start with our direct business operations and supply chain. We will want to consider which rights and interests are most likely to be impacted, and whom we

expect to take preventive action. Companies in the apparel and footwear industry, for example, are increasingly explicit about practical and measureable reference points for purposes of monitoring subcontract factories. Expectations for hours, wages, working conditions, or health and safety are enumerated so that factory managers, sourcing managers, and human rights monitors as well as employees and their advocates have concrete benchmarks for monitoring working conditions.

Contextualising global principles also means attentiveness to the most likely or harmful scenarios for negative impact. According to the Guiding Principles on Business and Human Rights, companies “should address all of their human rights impacts … and begin with those human rights impacts that would be most severe.” For one company this might mean focusing on a leak that could become an environmental disaster. Another might need to monitor government follow-through on its commitment to fairly resettle displaced communities to ensure that the company does not become complicit in harm. People can see, raise and manage issues far more effectively when they know what to look for.

*“When the company becomes entangled in conflict it must be your first priority to address that conflict. The very fact that you don’t see it as first priority and do other things makes the situation worse. It lowers trust and credibility with other parties. It jeopardises all the rest that you are trying to do.”*

– Corporate Relations Manager, extractives industry

**Solutions must respond to the scale and severity of the problem.** One manager explained with great nuance the indirect impacts of the company’s mine in West Africa. Lack of opportunity driven in part by the many large and exclusive concessions granted to mining companies in the region encouraged thousands of people to engage in illegal mining. They were in danger from the collapse of poorly constructed mineshafts and violence between rival gangs of miners. They also caused environmental degradation that threatened local communities. Well-financed armed criminal organisations with foreign connections were increasingly implicated. The manager said the company was starting to deal with the problem by creating alternative livelihoods. It had started a pig farm that employed 24 people.

The gap between the severity and scale of a problem and the company’s solution is not always so extreme, but it is often notable. According to the IFC Performance Standards Guidance Notes, “a satisfactory management system appropriate to the nature and scale of the project and commensurate with the level of environmental and social risks and impacts is required.” Here the ability to apply classic management thinking in a new context becomes apparent. When evaluating whether the company is taking responsibility for the direct and indirect impacts of its actions, leaders can apply the same diligence as they do for other business systems. They can question whether planned inputs and processes are likely to produce desired outputs.

**Showing progress is not effective performance.** In Mozambique, entire farming communities were resettled to arid land in 2009 and 2010 to make way for mining operations. Resettled farmers without access to water have no ability to grow food and no income to buy food. Company officials have acknowledged that the land is marginal without irrigation. After protests briefly shut down operations and outside organisations mobilised, companies accelerated their responses. Yet projects to make irrigation widely available will in all likelihood take years to implement. Such examples illustrate the attitude one manager described as, “we’re on it.” Within the company there may be a sense that problems are being addressed. But affected communities won’t see results – if at all – for a very long time.

Allowing others to suffer so our project can move forward violates fundamental standards of fairness. It is one thing to need time to clean up an unintended mess, but quite another to plan for one. In such cases of predictable and proximate harm to others, the company must ensure that harm is prevented. Even when harm is accidental we must move swiftly. In the words of CERES – a coalition of investors and other actors working with companies to address sustainability issues – companies must “promptly and responsibly correct conditions we have caused that endanger health, safety or the environment.”

*“It is now commonly understood that the company’s environmental, human rights, labour, and anti-corruption performance are integral parts of the business risk. The challenge is making thinking about social risk operational. The concepts are clear, but the ability to put them into practice on the ground is not for most companies.”*

– Senior Manager, export credit agency

**Good citizenship or charitable contributions do not offset harms done.** In light of the jobs they create, the tax revenues they generate, and the other benefits they can enable, companies in complex environments are often taken aback by the level and fervour of animus directed against them. The Swiss-based Bern Declaration noted that, “Large corporations react to this pressure through foundations and philanthropy projects – which are laudable but have absolutely nothing to do with true social responsibility in a corporation’s core activities.”

Companies are often justifiably proud of their corporate citizenship or philanthropy. The problem comes from confusing general positive action with specific responsibility. We must at all times work to prevent problems from arising and effectively redress harms done. These are obligations particular to the individuals, communities and issues in society affected by our presence and operations. Doing good for one group of people does not offset harm done to others.

**Channels and forums for raising concerns play important roles.** Processes for people to raise complaints about our actions and inactions are often viewed as backwards looking: designed to determine who did what, who's at fault, and who has to do what or pay whom to make it better. Yet a well-designed feedback or grievance system encourages people to come forward with small problems before they become bigger ones. It can provide important data for company management about problems that concern our neighbours and are likely to eventually impact us as well. We benefit when we establish a variety of forums that ensure that we remain open to criticism, demonstrate our willingness and capacity to act proactively, and resolve problems when issues arise.

Equally important is that our responses to complaints and grievances be, and be seen to be, fair and effective. We will be more credible if we do not act as the judge in our own cases. Whether as part of a consultation process to plan for future action or a grievance process to review harms done, people respond better to processes in which we give up some measure of control over final decisions. In an increasingly networked world, our arguments to tribunals in our home country that we should not be held accountable for problems in our host country have local impact. We will likely undermine our efforts to establish ourselves as fair actors committed to justice in the complex environment.

## 3.6 Are we even indirectly involved in armed conflict or gross abuses?

*Not every complex environment is a conflict zone. But when the company finds itself in one – whether a rural upsurge of rebel violence or an urban outburst of anti-union violence – then particular vigilance is required. Gross human rights abuses include crimes against humanity, slavery, enforced disappearances, extrajudicial killing, rape, and torture. The greater the risk, scale or severity of violence or human rights violations, the greater our duty of care will be. Depending on the nature of our business and its relationship to conflict actors, we may need to ask whether we can responsibly do business at all. Involvement in gross human rights violations, even indirectly, can lead to civil or criminal liability.*

THE  
MESSAGE

**A company is responsible for protecting labour rights.** Core International Labour Organization (ILO) conventions contain key benchmarks for assessing a company's human rights conduct and impacts. Relevant standards consolidated in the ILO Declaration on Fundamental Principles and Rights at Work provide baseline guidance for companies on protecting labour rights within the scope of their business operations. At a minimum these benchmarks call on companies to respect freedom of association and avoid forced labour, child labour, and workplace discrimination. These labour rights are

explicitly referenced in internationally recognised standards such as the International Finance Corporation's Performance Standard No. 2 on Labour and Working Conditions.

Yet repression of labour and forced limitations on freedom of association often occur in fragile environments. Around us we may see companies violate the right to form trade unions, seek reprisals against trade unionists, and interfere – sometimes violently – with the right to strike. Particularly difficult are circumstances where the host government prohibits workers from organising or where it tolerates, condones, or even encourages violent acts against labour activists. Even if we do not participate directly, we need to ensure that we do not stand to profit from repression as the host government stifles dissent and clamps down on organised labour. We may be indirectly condoning gross abuses.

**We can take positive action even in hostile labour environments.** Many companies manage to exert positive influence even under circumstances of general repression of labour rights. We may work to build relationships with local organisers, community leaders, workers and government representatives. We may use our leverage to press for improvements and insist upon accountability for labour rights violations as well.

In China, for example, the All China Federation of Trade Unions (ACFTU) is state controlled and does not allow its members to freely elect its leadership. It has been complicit in violations of fundamental workers' and trade union rights including cases of detention of trade union and labour rights activists. Yet one international company in China facilitated independent, democratic union elections by secret ballot in a number of its subcontracted footwear factories with full knowledge by the ACFTU. The company helped give workers an independent voice that would serve to improve working conditions.

*“It pays to stay calm. Sometimes the bold move is not to do business. It takes guts to say ‘no.’”*

– Regional Manager, industrial goods & services, Southwest Asia

**A company can be implicated in abuses by those who use excessive force on its behalf.** The Voluntary Principles on Security and Human Rights articulate the increasingly well-accepted norm that we are responsible for the actions of our security providers. The Principles mandate that we maintain the safety and security of our operations in a manner that ensures the human rights of others. Likewise, the Principles set the expectation that we monitor the conduct of the security providers that protect our assets and personnel in complex environments.

Companies sometimes pay or provide equipment to the army or the police to provide protection. The use of public rather than private security does not relieve the company of its responsibilities. One oil company built a gas pipeline in partnership with the Myanmar government. In litigation against the company, a court found that the company “knew or should have known that the military did commit, was committing and would continue to commit” acts of forced labour, torture, rape, and murder to clear land along planned pipeline routes. The court noted that the company knew that the military had a record of committing such human rights abuses and still used it to provide security for the project. The company settled the case on appeal, reportedly for tens of millions of dollars.

**Complicity in the worst abuses has ethical, civil, and possibly criminal consequences.** International human rights and humanitarian law standards require us to take particular care to avoid any involvement – whether direct or indirect – in gross abuses: those related to armed conflict as well as slavery, enforced disappearances, extrajudicial killing, rape, and torture.

Where such gross abuses take place we will want to look broadly at our actions and inactions. The International Commission of Jurists report, for example, notes that a company or its individual agents can be held responsible for “aiding and abetting” such abuses – for example, supplying materiel it knows will be used for ethnic cleansing. A company or its agents can be liable on the basis of “common purpose” – for example, making clear to an authoritarian government that the company would invest if certain labour activists were no longer around. The company or senior managers are also responsible if they have “superior responsibility,” meaning that they failed to carry out their duty as to prevent misconduct of a person under their control.

Lawyers will continue to argue the finer points of these responsibilities under international and national laws. We need not. We do better to remember that both prudence and ethics lead us to steer a wide berth around such entanglements. We will want to stay alert to the possibility that we may be connected to terrible events even if we are physically removed from them, for example, where we sell equipment; that actors who are inclined to do harm may misread any silence or weak protest on our part to be tacit approval of their actions; or that we are engaging in the false logic that because another company would have stepped into our role had we declined to do business with a particular bad actor that we are not responsible for our own decisions and actions.

*“Fragile contexts don’t take surprises well. Reactions are much stronger. Outsiders may see a ‘usual’ problem for a company, but that may constitute a crisis for the country. There is no button to press to calm down an angry population that feels betrayed.”*

– Country Manager, extractives industry, Africa

**A situation may be too volatile for us to do business at all.** In October 2002, the UN Expert Panel on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of the Congo identified 85 companies that it considered to be in violation of the OECD Guidelines for Multinational Enterprises. This Expert Panel implicated several of these companies due to their relationships with armed groups known for widespread ethnic massacres, arbitrary detention, summary execution, the use of torture and other forms of ill-treatment and sexual violence. According to widespread accounts, these companies had crossed the line and become part of the armed conflict by providing the warring groups with financial and material support.

We can avoid such entanglements only when we think clearly and take proactive measures. Allegations of company involvement in gross human rights abuses – whether through the use of company equipment to forcibly displace urban squatter communities, slave labour in their supply chain, or excessive force by security services to quell protests outside the gate – typically come about suddenly and after significant harm has already been done. The solution lies in constantly monitoring what we do know and what we should know about potentially violent or abusive events around us.

Sometimes patience is called for. Many companies, for example, are caught up in the rush to enter countries newly reopened to investment such as Myanmar. They fear missed opportunities or are swept up in exuberant rhetoric about supporting positive change. Yet some companies take a more measured approach. Carefully examining particular economic sectors such as agriculture or mining and understanding power relations at a regional or even local level, these more cautious companies note that the army is still willing to use violence to advance its economic interests. They have come to the conclusion that they at least for now cannot conduct their business in many parts of the country without a high risk of entanglement. Their prudence is likely to pay off across all of the company's goals – technical, financial, legal, reputation and social – in that complex environment.



CASE STORY:

# *How can we help labour become the partner we need?*

*Electrolux in Poland*



*The Electrolux Group's manufacturing restructuring programme intended to shift manufacturing from high-cost areas to low-cost areas, including Poland, that are close to rapidly growing markets for household appliances. But labour and industrial relations challenges in Poland threatened Electrolux's plan to substantially grow production there while it consolidated elsewhere. Only by investing in fundamental changes in management and labour mindsets and capabilities could it simultaneously meet its goals of cost containment, innovation, quality, and manufacturing flexibility.*

## A changing market

Electrolux undertook major restructuring across its operations through the late 1990s, with substantial divestments of non-appliance businesses, personnel cutbacks, and plant and warehouse shutdowns. Streamlining allowed renewed focus on its household appliances and appliances for professional use.

Yet the changes were not finished. The Electrolux consumer appliance business still faced over-capacity from mergers, stagnant markets in Western Europe, growing markets in Eastern Europe that needed lower-cost products, and increased competition from Asia. It launched in 2004 a manufacturing restructuring programme to shift production to low-cost areas that are close to rapidly growing markets for household appliances.

This was not a strategy of competing on price alone. Electrolux knew it needed to increase the pace of its product development, at the same time ensuring that its products were ranked among the best in the market. It needed to maintain and improve its reputation for quality. And it needed to respond to the shift towards big retail chains with high volumes and wide geographic coverage that could dramatically change their orders from one month to the next based on their own marketing priorities.

So Electrolux's strategy called for it to pursue cost containment, innovation, quality, and manufacturing flexibility – simultaneously.

## Big plans for Poland

As it analysed low-cost areas for the new strategy, Electrolux looked to Poland. Returned to democracy with the elections of 1989, Poland had quickly undertaken a transition to a market economy as planned economies and politically managed economic relations among countries of the Soviet bloc collapsed. By 1995, Poland had regained its 1989 GDP level. By 2004, the OECD was able to report that “more than 75% of GDP is now produced in the private sector, the economy is well integrated with those of Western European nations and inflation has been brought down to low levels.” As Electrolux undertook its manufacturing restructuring programme, Poland also joined the European Union.

Poland rose to top of the list of countries for new investment under the Electrolux manufacturing restructuring programme. Geographically it was at the heart of Europe,

well-situated to serve both Western Europe and the emerging markets of the former Soviet bloc. It was politically stable. It had a good education system and solid industrial knowledge and experience. Wages even for skilled employees were relatively low. And its government was hungry for foreign investment.

Poland would become home to one fully refurbished and three greenfield Electrolux factories to be brought online from 2006 to 2010. They would produce cooking appliances, washing machines, dryers and dishwashers for Europe. This would first replace and then expand production from factories being closed in Germany, the UK, Denmark and Sweden. The business would grow from 550 employees in the country in 2004 to 3,875 in 2012. After the eventful 15 years that saw a fundamental restructuring of the business, Poland would be crucial to Electrolux success.

## *A challenging labour environment*

As part of labour-management negotiations, Electrolux management sat down with the Polish labour union, Solidarity. Accustomed to open and constructive relationships with labour – under Swedish law, labour representatives even sit on Electrolux's Board of Directors – management hoped to discuss a broad range of issues with their new union counterparts. They knew that labour engagement was crucial to building Polish manufacturing capabilities and meeting Electrolux's broader goals. But the union's focus was more narrowly on wages. And they were demanding an immediate increase of more than 30%.

Given the stresses of widespread unemployment in the Polish market, as well as the relatively small number of workers it represented, the union could not credibly threaten industrial action. But in this first contentious conversation between Electrolux management and one of its unions were all the same strands of three challenges facing a company like Electrolux that wanted productive labour-management relations in Poland.

The first was labour's recent history as a political protest movement. Solidarity had survived violent confrontations with riot police, martial law, its leaders' arrests, and almost a decade



of operation as an underground organisation to see its candidates dominate the 1989 parliamentary elections and its leader Lech Walesa became President of Poland in 1990. Solidarity had succeeded through fearless opposition to the government in establishing the “self-governing republic” it had long stood for. This mindset seemed to carry over to the Electrolux bargaining table.

The second challenge was each union’s fight for a national voice. Poland has three national trade union confederations, each associated with a particular space on the political spectrum. Which party a union member votes for will largely determine the union to which he or she belongs. This means that unions and their confederations are often enough engaged in political wrangling with each other. At the same time, Poland’s Tripartite Commission, intended to be a space for dialogue and policy-making among business, labour and government, has been largely ineffectual, with a divided labour movement unable to counter the largely pro-business positions of a government that maintains ultimate authority to implement its programmes. Labour’s stance with Electrolux appeared to reflect broader tensions with business, government and other unions as much as the realities of Electrolux’s particular operations.

The third challenge was labour’s struggle for relevance in Polish enterprises. At the end of the 1990s, a survey of union members showed that a majority believed that no union was able to adequately represent their interests at the enterprise level. This pessimism reflected a number of structural barriers to collective bargaining under Polish law. Even today, only 30% of all Polish employees work in companies with trade union representation, and the trend towards collective agreements within even these companies is downwards as many companies utilise a variety of legal protections and divisive strategies to avoid collective bargaining. Strong demands on Electrolux could be seen as an attempt to show Polish workers that unions were capable representatives of workers.

Unions in Poland have historically used strikes and labour unrest as a methods to reach agreement. Across the table from Electrolux management sat union representatives who could easily see conflict with management as a natural response to an environment they found in general hostile to organised labour’s interests.

## *Changing the game*

The “tense” relationship with labour would evidently make it more difficult for Electrolux to reach wage agreements with its unions. But perhaps more importantly, unions and the employees they represented “were not partners” who saw that they had an important role to play in helping the company achieve its strategic goals of innovation, quality, and manufacturing flexibility. Electrolux needed to answer a challenging question: How can we help labour become the partner we need?

Electrolux’s first move was one of transparency. A primary goal was trust-building: the unions and their members should see and hear on what basis the company was making decisions to come to Poland, and on what basis it would in the future decide to stay and grow there. Management did not ask workers for blind confidence. They said, “See for yourself the same strategy documents managers here are reading; look for yourself in the same financial statements headquarters is reviewing.” This on the one hand communicated to labour representatives what was influential to management, and on the other hand discouraged “playing of games.”

Another goal was building business literacy among employees who had never been privy to the inner workings of a company. In the past production targets were centrally mandated for state-owned enterprises without particular regard to quality or profitability. Now concepts of profit margins, the competitive landscape, quality as a driver of demand, and even the political economy of Poland vis-à-vis other countries in Europe needed to be explained and explored over “many meetings.” In the beginning it was not about seeking labour’s agreement, but rather helping build their understanding of “profit and loss, quality, and market flexibility,” facilitated by management’s openness.

A critical focus for Electrolux was establishing itself as an employer of choice. Even though unemployment in Poland was and remains unacceptably high, there were pockets of labour shortages in industrial zones among skilled factory workers as well as in Krakow where Electrolux’s shared financial services were located. This led to high turnover among the most valuable workers. Electrolux emphasised the safety and cleanliness of its workplace, as well as its comprehensive health insurance. It over time made sure that there were “many examples” of “opportunities to grow” within the company, with assembly line workers advancing to positions in supply chain management or the comptroller’s office. In this way, wages were contextualised within a broader basket of employee benefits and work satisfaction.

Electrolux also made structural changes to the format of negotiations with its unions. Negotiations were moved from the managing director’s office to the human resources department, making them professional working encounters rather than confrontations between the big company boss and the big union leader. It turned out to be helpful that all of management’s negotiators were – by chance – women. Union representatives found it “impossible to confront them in the same way they would a male factory manager.” Electrolux also moved to standardise work rules and employee contracts across all of its Polish operations. While better for Electrolux, it also supported harmonisation across the three labour confederations and bargaining at the industry rather than factory level to which labour in Poland aspired.

Finally, Electrolux management needed to own its part of the problem in tense labour-management relations. Management attitudes in Poland were historically not optimal, tending towards leadership styles that were “overly authoritarian” and a desire to “want to run things their own way.” Electrolux invested “massive” money and time for leader training from the plant manager to the shift manager levels. It “took risks” on younger leaders “less concerned with status,” promoting a 32-year old to plant manager for first time in Electrolux history. And it openly declared its intent to have Polish managers running Polish factories, which it achieved within five years. While the management transformation is not yet complete, these investments in Electrolux management began to produce advantages in both trust and pride, paving the way for more productive labour negotiations. In the company’s internal employee surveys of managers, all four Polish operations are ranked above the average of Electrolux’s workplaces globally.

## *Making global connections*

For all the unilateral moves that Electrolux management could undertake in Poland, it knew that these would not be enough to change labour attitudes and perceptions deeply entrenched over decades of labour strife. At the same time, Electrolux needed to manage tensions introduced by IG Metall, the German Industrial Union of Metalworkers. Electrolux’s

assessment was that IG Metall hoped to use relationships with Polish unions through the European Metal Federation to help them to block relocation of production from Germany. This appeared to reinforce the old and conflictual ways of thinking within Polish unions.

One lever of action for Electrolux was its European Works Council. Under EU Directive 94/45/EC, a European Works Council brings together employee representatives from the different European countries in which a large multinational company has operations. Electrolux used these meetings to lay out its European strategy and consult with its unions. But it also knew that these meetings would introduce Polish labour representatives to colleagues with a great deal of business sophistication who found it useful to engage more deeply on company issues. It was a business and industrial relations education through the channel of peer learning to which there was less union resistance.

Electrolux supported the power of labour-labour interactions in other ways. It used its strong working relationship with IF Metall, the Swedish Federation of Metal Workers, to ask IF Metall to make itself present and available to aid in the organisation of unions in Poland. This involved both direct support of the Polish union and its organisation, and alerting headquarters management to local management issues that it believed required intervention. The company also organised trips to Electrolux factories in Italy – including one from which Electrolux had moved its own production but had reindustrialised by bringing in an external company, underlining the company's commitment to its employees even under difficult circumstances. The focus was training that would accelerate the ramp-up of production in Poland. But Polish workers also saw and heard from their Italian union colleagues about different ways of thinking about labour-management relations. Electrolux management could not expect to be privy to these labour-labour conversations, but knew that sharing of experience among its workers accrued to its benefit.

Electrolux management admit that it is hard to quantify such efforts. But over time Electrolux saw its unions become more comfortable with the possibility of a new way of working.

## *Engaging in the workplace*

Unions in Poland are strongly grounded in their historic function as champions of the worker. They are therefore clear on their role in questions of wages, conditions of work such as breaks and availability of water in the summer heat, and worker scheduling. And Electrolux has made great gains in its working relationship on such issues. Management and unions, for example, “plan together” to meet the demands of large one-time orders by big retail chains. They now will say, “Production can’t wait. If we wait, we lose the market.” The unions have also embraced increases in pay tied to employee development and training.

Unions in Poland are all the same still less engaged than worker representatives elsewhere in Europe on more fundamental questions of productivity, quality and profitability. Electrolux management have therefore needed to develop a variety of ways of communicating and collaborating with its employees.

Among other approaches, Electrolux has successfully invested in its Works Councils. Works Councils, introduced on the basis of EU Directive 2002/14/EU on employees’ information and consultation, are found in only about 10% of Polish companies covered by the terms of the EU Directive. This reflects their relative weakness – they do not under Polish law share the codetermination rights they have in Sweden or Germany – and the suspicion that some

companies use them to undermine union influence. In Electrolux, however, these provide one platform for the growing emphasis on participatory problem-solving that is a crucial element of the Electrolux Manufacturing System (EMS). Employee suggestions that contribute to company goals are then rewarded and highlighted. “The woman on the company poster promoting EMS is a real person known to her Polish colleagues.” Through the Works Councils and these efforts, KPIs (Key Performance Indicators) “have become part of labour’s vocabulary.”

Through such approaches, Electrolux management take a broad approach to industrial, labour and employee relations, finding a variety of means of sharing information and engaging their workforce around the productivity, quality and profitability of company operations. It helps that union representatives in Electrolux Poland are workers who on a day-to-day basis cope with the challenges of quality and production management, active on Works Councils and in other forms of employee engagement. This allows management to some extent to blur the distinction between union and employee engagement. Electrolux can move faster on labour partnership than the current formal labour-management relationship allows, while leaving that door open for broader union-management collaboration in the future.



### *Just another Electrolux operation*

From one perspective, Electrolux's focus on empowering its labour representatives seems out of step with Polish realities. Due largely to widespread unemployment, only German, Dutch and Swedish workers strike less often than their Polish counterparts in Europe. Only 6% of Polish workers belong to the trade unions that are fighting to achieve relevance at both the national and enterprise levels in the face of government and employer ambivalence. There may appear to be little need for the investments in its unions that Electrolux is making and that its competitors tend to discount.

But for Electrolux, it is the “law of Poland and the policy of the company” to respect unions. In a context where only 14% of Polish employees view negotiations at the enterprise level positively, company management prefers to take a long view towards establishing the kind of resilient relationship that will see it through a rebounding Polish economy and an improved climate for labour in the future. With Polish operations now run by Polish nationals, Electrolux management “wants to be able to stay in Poland forever.” This will require it to continue to build and maintain the trust of its workforce.

Both labour and management observers agree that mistakes are sometimes still made on both sides of the table and that there is room to improve the “upward spiral” of labour-management trust and partnership in Poland. In the meanwhile, Electrolux has established modern and efficient plants. It has good employees who are well-educated and trained. Achievements in quality, volume and cost often exceed the performance of factories in Western Europe. Financial results are “very interesting.” When at one point the company faced a possible illegal strike, after consultations “labour and management stood together” to facilitate a return to work. And whereas labour relations began with demands for 30% wage increases, all of this was achieved with pay levels benchmarked to the median of the Polish market that – in light of other benefits, opportunities and work conditions – all the same result in low worker turnover.

It turns out that Electrolux can indeed monetise the value of its investment in transparency, respect, and the nurturing of strong labour-management relations. It can do so even in a market where such relationships are far from the norm. And from Electrolux’s perspective, it has to. “The market is tough,” noted one manager. “But working together, we can deliver.”

THIS CASE STORY WAS WRITTEN BY BRIAN GANSON. IT IS BASED ON INFORMATION PROVIDED BY ELECTROLUX. THE ANALYSIS OF THE LABOUR CONTEXT IN POLAND DRAWS SUBSTANTIALLY FROM V. TRAPPMANN, *TRADE UNIONS IN POLAND: CURRENT SITUATION, ORGANISATION AND CHALLENGES* (FES INTERNATIONAL POLICY ANALYSIS 2012).

#### ABOUT ELECTROLUX

Electrolux is a global leader in household appliances and appliances for professional use. It sells more than 40 million products to customers in more than 150 markets every year. Electrolux products include refrigerators, dishwashers, washing machines, vacuum cleaners, cookers and air-conditioners sold under brands such as Electrolux, AEG, Eureka and Frigidaire. It has production facilities in 19 countries. In 2011 Electrolux had sales of US \$17 billion and 61,000 employees. (More information is available at [www.electrolux.com](http://www.electrolux.com).)

# 4

CHAPTER 4:

## Are we disciplined about answering questions?

*“Be prepared to be unprepared.  
Your core competency is not  
prediction, but adaptation.”*

*– Country Manager, industrial goods & services,  
Middle East & North Africa*

*Context can change quickly in complex environments and the actual impacts of our actions may be different from those we intended. This makes both the effective implementation of our strategy and the fulfilment of our responsibilities to internal and external constituencies more challenging. Ongoing assessment of the environment is called for, yet we may find reliable information hard to come by. When we consider in a more structured way the challenges to rigorous assessment, approaches that open doors to better data and analysis, and mechanisms that help translate insight into effective action, we can act with greater confidence with external stakeholders and in the management of our business.*

Prepared perhaps by colleagues who have gone before us, we are aware that there is much worth knowing as a company leader: the unique characteristics of complexity in the specific environment in which we will be working; the direct and indirect impacts of our particular enterprise on the social, political, economic and conflict dynamics around us; and the interplay of those on each other and on our ability to meet our responsibilities for the business and for the broader society.

We quickly come to find, however, that the data we seek is missing or of poor quality. We may oversee a large number of assessment processes driven from every corner of the organisation on matters as diverse as the natural environment, social impact, human rights, political risk, corruption risk, labour rights and conditions of employment, supply chain issues, and security risks feeding both global corporate and external stakeholder processes. Yet we still may feel that we don't know what we need to know to see our business thrive and contribute to our host society. Despite all the consultation going on, we may even hear local actors say they don't think we're really listening. We come to understand that asking the right questions is only the first challenge. We must then find rigorous answers that in practice result in deeper understanding and more effective action.

Doing so requires us to go back to basics, nurturing a conversation within the organisation about why we are asking questions and how carrying out assessments can serve us. We may need to think through ways of obtaining more reliable data and analysis, at the same time remaining aware of the challenges of doing so in environments that may be characterised by discrimination, fear or even violence. We will need to consider who is accountable for rigorous assessment, and how results of assessments can be made accessible and readily useful across and beyond the organisation.

These questions help us explore how we can more effectively and efficiently gather insight and put it into action in a complex environment:

- 4.1 Why are we assessing?**
- 4.2 What information can we depend on?**
- 4.3 Which approaches open doors?**
- 4.4 What are the sensitivities?**
- 4.5 Who is responsible?**
- 4.6 How do we turn insight into action?**

## 4.1 Why are we assessing?

*Global processes and international commitments of the company impose any number of requirements for assessment. Many within the company will find these processes cumbersome, overly technical and resource-intensive. We can help the broader organisation remember their ultimate purposes: to understand on an ongoing basis the dynamics among the complex environment and our company's presence; confirm that the results we intended from our actions were in fact the outcomes that occurred; build internal and external confidence in our ability to deliver; create an opportunity to respond appropriately if we fall short; and affirm with others our joint interests and common future.*

**Assessment is structured inquiry.** Most of the information we gain about the world around us is received informally and largely automatically. We talk with colleagues and business partners about the challenges we face implementing our plans or about possible new opportunities. We discuss current events with friends and neighbours or attend talks on new policy and legislation at the Chamber of Commerce. We read newspapers and listen to local radio. We make site visits to our more remote operational areas to meet with employees, neighbours and local officials there. If we are open and curious, we learn much this way about social, political, economic or conflict dynamics in the complex environment.

Such information is still likely insufficient for us to identify the specific socio-political risks and challenges our business faces in its particular context, understand the issues that motivate our stakeholders, develop strategies and operating plans tailored to local circumstances, choose and engage partners, frankly assess our political capital and legitimacy, or know whether those whose support we need or value judge us to perform with accountability and transparency. When the stakes are high and the risks are elevated – or we simply have the sense that there are still too many “unknown unknowns” – we need more deliberate systems to collect and make sense of relevant and reliable information for making decisions. This we will call assessment.

**We assess to learn.** Whether on our own initiative or as required by corporate policies and practices we seem always to be engaged in assessment. Environmental and social impact assessments, political risk assessments, legal due diligence, pre-investment or divestment due diligence, whistle-blowing systems, human rights due diligence, employee surveys, and group policy compliance audits are all part of the corporate vocabulary. All may require input about, and in turn shed light on, the impacts of the complex environment on the company or the direct and indirect impacts of the company on social, political, economic and conflict systems of which it is part.

A key challenge is simply to remember that the value of assessment is in any learning that takes place. Such processes are often technical in nature, cumbersome and time consuming. The focus easily becomes procedural compliance and the check-off of submission requirements. One leadership task is therefore to convene the team to consider what new and useful insight may have emerged. Another is to develop lighter and more flexible

approaches to assessment that all the same meet corporate requirements. Without these it is unlikely that the organisation will engage in the ongoing assessment and re-assessment that is required to keep abreast of a rapidly changing context.

**We assess to verify.** A defining characteristic of complexity is that the relationship between cause and effect may be attenuated and results unexpected. We may in all good faith take action to avoid direct harm, mitigate indirect harm, or lend our support to “connectors” or other positive dynamics in the places we work. Yet we must all the same take care to confirm that the results we intended were in fact the outcomes that occurred.

Complicating such assessments is often geographic distance – headquarters in the capital may be far from operations of commercial farms or infrastructure projects – as well as organisational distance when the company works through contractors or NGOs. What may seem like a very basic question – was there or was there not gas flaring from an exploration well, a highly visible and unambiguous occurrence – may become the subject of argument among a company, a government ministry and environmental activists each relying on third-party information. More ambiguous impacts – whether tensions were reduced between neighbouring communities, for example – are commensurately more difficult to verify.

To address such challenges requires both careful consideration of data needs and development and implementation of monitoring systems before activities are launched. There is no useful assessment without solid information on which to base it.

*“Headquarters have a tendency to not understand local disruptive tendencies in society or politics. They will therefore either neglect these or overreact. There need to be clear processes for organised learning and decision-making about complex environments.”*

– Board Member, multiple companies operating in complex environments

**We assess for accountability.** Our company at global, national and local levels will have made any number of commitments. We are responsible both for ensuring that we follow through, and also for being transparent about our performance against promises made whether or not it is wholly positive. Assessments build internal and external confidence in our ability to deliver, and create opportunity to respond appropriately if we fall short.

Here we may face challenges both of ambiguous goals – what it means to be responsible for the health, safety and well-being of our employees may have many meanings – and of missing baselines – we may not know what the health of our employees was before our new programme launched. Attribution of positive or negative results to our initiatives may be difficult when the context changes rapidly around us, further complicated when our efforts are only part of a broader stream of efforts involving many players and activities.

If accountability is our goal, then the system for assessing progress towards fulfilment of our commitments must also be accountable to beneficiaries, advocates, governments, or other concerned stakeholders. The starting point is common understanding of what we are

trying to achieve. This informs the data we collect, the process by which we collect it, and ultimately its meaning.

*“Finance providers, credit guarantee organisations, and institutional investors all want to know: ‘What are you doing from a shareholder risk perspective?”*

– CEO, engineering services

**We assess to build relationships.** Embedded in our strategies is typically the assumption that we can develop constructive relationships with local stakeholders to achieve expected results. The very act of inquiry can be such a bridge to other people. We demonstrate a very human curiosity and concern. We can show that we care not only about what we are trying to do, but also about what they are trying to do and what we might, with their consent, do together. We can build trust by transparently sharing information and reduce anxiety by involving others in our planning. “Let’s look at things together, broadly and rigorously” can be an affirmation of joint interests and a common future.

The converse also proves to be true. Pro forma consultations, a unique focus on information extraction and the company’s own activities and interests, and input that has no apparent impact on the company’s action may only serve to underline that we don’t really care about people or what they have to say. This predictably increases fear and resentment. Where doors were in the beginning open to sharing of perspectives and information, the company may find that they progressively close, making the task of information collection and analysis all the harder. As with most everything we do in the complex environment, how we go about it is as important as our intent.

Here the leadership task may be to keep the multi-layered purposes for assessment front and centre in the minds of those to whom it is entrusted. “How do we gain the timely insight we need for action, while at the same time meeting our global obligations, evaluating our performance, demonstrating accountability, and building relationships?” is a complicated question. But it is one that will perhaps best serve the needs of the organisation for effective and sustainable assessment.

## 4.2 What information can we depend on?

*Even convinced of a need for rigorous assessment we must think through the quality of data required for our analyses. Complex environments are by their nature poor on information. Actors will share perspectives with a variety of biases and agendas. A concerted effort is required to collect and make sense of information from a range of sources. This requires an organisational culture of inquiring, listening and learning as well as management systems that encourage information-sharing. Jointly assessing with actors across diverse sectors and perspectives further lets us collectively test assumptions underlying our joint and several decision-making processes and strategies.*

**Complex environments are information poor.** Important information may simply not be gathered by anyone. There may be a lack of policy, legislation, institutions, resources or skills across government, academia, civil society and business to collect data on the population and its well-being, people's attitudes and beliefs, the natural environment or economic activity. Violence may go unreported where people have little confidence in the formal justice system. The "shadow economy" of otherwise legal but unregistered or unreported employment or business activity may be a large proportion of the economy. Such dynamics may render even information that is available highly unreliable. Political systems that curtail media independence or freedom of expression may further reduce outlets for critical voices about political, economic and social challenges.

We must first of all be aware that we do not have good data, avoiding overconfidence in understanding the complex dynamics of challenging environments. Because most people don't like uncertainty and some people like the reputation of being in the know, speculation circulates until it becomes conventional wisdom. We must also be aware of what the data we do have represents. Political risk analysts, for example, may have networks of informants that allow them to accurately assess whether a political leader is in fact losing his party's support or whether such talk is the wishful thinking of civil society. But they are less able to assess more subtle dynamics, such as the state of relationships among different social groups or the mood in the street at community or national levels.

**People share information for a purpose.** Perspectives we hear will often be motivated by an agenda. Influential persons or people with formal roles are often the voices we as outsiders hear, even though they may not represent the views of the broader population. What they impart will be qualified by their world view – that protests are driven by a few radical elements – or by what they believe we need to hear – that communities whose land was appropriated have been successfully resettled and are thriving – for them to advance their own interests.

Even when we try to reach out to those more marginalised or voiceless in society we may face similar challenges. We are among the privileged and the powerful in a complex

environment, and the assumption wrongly or rightly may be that we are aligned with the perspectives, interests and agendas of the other powerful elements in society. People may simply not speak openly.

The overriding agenda in an impoverished and opportunity-constrained community may also be to benefit from the resources we bring. The responses to our social assessment may be tempered by what people think we are willing and able to deliver. Rather than hearing, for example, that there is pressing need for a steady purchaser of local produce at a fair price without government corruption so that people could build their own lives – what they know they need but do not believe we can help them achieve – we may hear a request for a new school building or shoes for children to wear – what they think they might possibly actually receive from us. People tailor their messages to their audience.

*“There are a host of assessments: by companies, international institutions, staff of the local embassy, and others. Making sense of a complex environment is not something you should be doing by yourself. Networks that share information are much better at identifying and managing risk.”*

– Senior Manager, export credit agency

**Better information comes from aggregating many sources.** A starting point is to collect information from as many sources as possible. We will want to ensure, for example, that we have in fact spoken with a broad cross-section of the business, government or civil society whose views we need to take into account. Sound assessment also requires a variety of data collectors. What a government official or community leader may tell people with whom they have different kinds of relationships – a company employee versus an NGO we contract with, people of the same or a different nationality, or men and women – may always be true but all the same frequently be quite different.

We may not reach the “gold standard” for data – valid because it is complete for our context and purpose, reliable because it comes from dependable sources, and accurate because it can be gathered repeatedly with the same results – but we can get much closer. Yet particularly in business cultures that promote a “bias for action,” there may be reluctance to spend time and resources on assessment. It may help to remember that those in more difficult situations than ours have seen the value. Officers reported that at the beginning of the Iraq War there was a rough balance of 10% of time spent on assessment and 90% of time spent on action. As years went on that ratio reversed. Military personnel came to value listening and learning from Iraqi perspectives because it enabled more effective action.

**Data is higher quality when it is gathered from purposeful activity.** Particularly if it is not a normal part of our professional lives, the circumstances of being asked to provide feedback or information consciously or unconsciously change what we are willing or able to say.

The effect that being observed has on people is reduced when we can listen to them going about other activities. Sayga (C2C, page 138) better understood the food needs of households by providing culinary training. Company staff learned through informal interactions with women, who also became more willing to participate in surveys. Sun Microsystems (C2C, page 38) convened business executives, scientists, NGOs and institutes through discussions on topics of common interest such as innovation, economic growth and market trends. We may also be able to sit in on public hearings or arrange invitations to attend civil society forums where we learn by listening as others discuss their affairs wholly apart from our intervention.

One of the most promising sources of data is when we are working together with others on projects they deeply care about, whether helping design a vaccination programme with public health officials or helping a local community irrigate their fields. Not only have we built trust through commitment to their agenda; at some level people know that bad information provided for planning and execution will lead to undesirable results. They therefore may be more forthcoming.

Making use of such information requires an organisational culture of asking questions and seeking understanding about local dynamics and relationships. It benefits from management systems that encourage colleagues to share their observations and experiences with the broader organisation. The incorporation of observations from daily activity as a business process constitutes one sound platform for learning about complex contexts.

*“There are many versions of the truth. Your job is to achieve from a variety of sources a certain measure of objectivity.”*

– Environment and Social Responsibility Manager, extractives industry

**Better analysis comes when we work together with others.** We are unlikely to be the only ones carrying out assessments in the complex environment. Other international businesses will be conducting social impact and human rights assessments; governments, often in cooperation with international development partners, will be assessing social and economic strengths, opportunities and challenges; and in more difficult places peacebuilding organisations will be conducting conflict analyses. It may also be more straightforward than we imagine to bring these diverse parties together. Information we can provide on our plans and activities is after all an input that increases the quality of their reports and analyses. Others can better assess and mitigate risks or make proactive plans even as we do the same.

The power of such forums to share information and conduct joint analysis comes from the ability of actors from diverse sectors and perspectives to challenge each other's thinking. Properly moderated they will uncover gaps in information and understanding; potentially faulty assumptions regarding cause and effect; and biases in both data collection and data reporting. We not only expand our sources of intelligence to include networks of actors less easily accessible to us, but compare our own reasoning and analysis with those of others.

The inclusion and triangulation of multiple and varied stakeholders' opinions makes it more likely that sound conclusions will be the basis for planning and decisions going forward. Repeating such interactions over time lets us collectively test assumptions underlying decision-making processes and strategies.



#### COMPANY TO COMPANY

## How do we understand our customers?

### Sayga in Sudan

*The DAL Group suspected there was opportunity to import and mill wheat from Australia to meet unmet demand for quality bread in Sudan. In a data-poor environment, it found innovative ways of engaging with customers and consumers to make learning about the market a day-to-day activity.*

The establishment of Sayga, a diversified food company in Sudan, came about organically. In the 1990s, the DAL Group (DAL) of which Sayga is part offered engineering products and agricultural services, including ploughing more than a million acres of farmland. It was often paid in local commodities rather than cash, which led to trading of wheat flour. DAL saw that there were quite a few flour mills in the country, but all small in scale. The quality of the wheat and subsequently the quality of the bread in Sudan was very poor. There was no consistency in the availability of bread; most of the wheat market was controlled by inefficient companies or traders looking to make short-term profits by selling whenever supply was low. DAL suspected there was opportunity to enter the milling market as a long-term investment for consistent profits, rather than treating wheat as a trading opportunity, and created Sayga.

Sayga's investments would be substantial. Sayga today, for example, produces wheat-based flour with sophisticated Swiss machinery on fully automated production lines. It has its own bulk-grain terminal and storage silos at Port Sudan supplying its mills with roughly 1.5 million metric tonnes of grains annually. It has its own fleet of railway locomotives and wagons. Ensuring a return on such investments would require sound understanding of the type of flour bakeries required and whether they would be open to trying a new product. Sayga needed data on the price elasticity of bread that would determine whether the strategy of importing a consistent supply of high-quality but more expensive wheat from Australia would be viable. Consumers with limited disposable income might well prefer bread from bakers using lower-quality but cheaper suppliers, or go without in times of inadequate supply.

Sayga started by surveying producers, retailers, and consumers. The product development team confirmed that Sudanese consumers would appreciate a higher quality product and, regardless of their income, would pay a small premium in order to obtain it. Communicating this with bakeries gave them confidence that the price increase in their inputs could be transferred directly to consumers and assured Sayga that bakeries would be willing to purchase its flour. Sayga began milling operations in 1996.

Yet it quickly became clear that it was not enough to conduct surveys. Bakers would consider purchasing Sayga's flour only if they knew how to use it. The company thus established a research and development unit to study the different types of bread that could be produced with the new flour and the ways that yields could be improved to share with bakers. Once the flour was in the market, managers realised that telling bakers the many techniques they could follow to use the Sayga flour was also not enough. The company needed to train these bakers in how to properly use the product. Sayga thus created a department of technical support that would help bakers decide on the best ingredients to use, how to follow a production process, and address other issues. In addition to building brand loyalty with commercial bakeries, this made learning about the market a day-to-day activity.

With strong R&D and baker training combined with its supply chain investments, Sayga soon controlled 50% of the Sudanese flour market. The government became concerned with the implications of a potential monopoly on such a critical consumer segment and encouraged other players, including public companies, to enter the market. The government would not set a quota for Sayga, but the company faced the risk of a forced price decrease or limited access to foreign currency which the company requires for imports. With increasing competition in the milling industry and the financial and political cost of additional bakery market share too high, Sayga moved in 2007 to diversify into the retail market, where it believed growth potential was immense. But lack of consumer data was again a challenge.

Sayga created a free training centre where women learn how to incorporate flour into their daily kitchen routines. They bake goods in small kitchens with the help of professional chefs. The company provides all materials and covers all costs. At the end of the training course, the marketing team surveys the women on their thoughts about the products and any improvements they would suggest, ensuring that consumer understanding becomes part of management decision-making. Over seven years Sayga trained and heard from more than 150,000 women. There is a six-month waiting list to attend the training programme. Competitors have not been able to copy this model because of the high investments required.

Like many large companies, Sayga triangulates data from a variety of sources, including focus groups and usage and attitude studies conducted in Sudan by international agencies and research firms. It extrapolates market size based on assumptions and scenarios that draw on

consumption habits, number of people per household, number of households, benchmarking on similar markets with similar consumption habits, average grams consumed per meal and/or dish, raw material import figures, and so forth.

But its most important data and insight are gained working side by side with customers and consumers. Research and development and baker training make Sayga welcome in commercial bakeries. Its training centre for women brings Sayga into people's homes in ways that let it explore customer preferences. Consumer input has helped the company decide where to move next: now Sayga's product base includes flour from traditional grains used for regional foods, as well as other basic foods such as sugar, powdered milk, tea, powdered drinks, tomato paste, lentils, rice, beans, and bullions. Sayga has found that its understanding and insight are valuable in their own right, making Sayga the Sudanese partner of choice for international companies such as Unilever and Kraft.

Sayga reflects that its deep market understanding requires a dedicated management team. It required at least in the beginning a narrow product portfolio so management could understand the ins and outs of wheat and wheat products in depth before turning its attention to related products. But most of all it required making learning about the market an ongoing activity, engaging and experimenting together with customers and consumers.

ADAPTED FROM A FLETCHER SCHOOL CENTER FOR EMERGING MARKET ENTERPRISES REFLECTION FROM PRACTICE BY ELIAS YOUSIF SHASHATI OF SAYGA INVESTMENTS WITH FATIMA ASVAT OF THE FLETCHER SCHOOL.

## 4.3 Which approaches open doors?

*When assessing political, economic, social and conflict dynamics, most of our data comes from people. We can develop, implement and institutionalise processes that help us access their experience, insight and advice. Proactive approaches will almost always be superior to reactive ones. Entering into conversations that are reciprocal exchanges creates incentives for others to work with us. Partnering with the right convenor and using structured, participatory processes allow us to draw on the wisdom of diverse groups at all stages of assessment. We acknowledge the limits of our own understanding by pressure-testing insights and ideas that emerge against both expertise and learning from elsewhere.*

**Proactive is better.** The importance of accessible complaint registries and grievance mechanisms should not be discounted. They allow problems to be addressed with greater speed and informality, often diffusing tensions and avoiding escalation. As a data source their careful monitoring allows us to see patterns of concern or deficiencies in our own execution. As one manager all the same noted, “*Even if one has a good grievance mechanism, it is not enough to wait for grievances to come in the door.*” Where trust or relationships have broken down, people may not be willing to come to us with problems. Others occupying more prominent positions in society or business may not feel complaint processes are meant for persons of their status. Finally, only information gathered in advance of action allows us to avoid missteps all together.

Proactive information gathering is a project management challenge in and of itself. It requires stakeholder mapping to know the range of parties with whom we should speak and the issues they care about. It requires preliminary analysis of available data and its validity, reliability, accuracy, and perceived legitimacy among others. It may require outreach through trusted intermediaries in order for people to meet with us and discuss matters freely. If we need input from people not only as individuals but as a community or unit of government, we may need to allow time and support for people to organise and consult with each other before they express views to us.

Planning for rigorous assessment may also bump up against company business processes and plans. These may not account for the significant resources or lead times required for information gathering and analysis. But assessment is frustrating at best or destructive at worst if it is out of sync with the action that people around us see the business taking.

**Reciprocity helps.** One mayor of a town in Sierra Leone noted during an assessment process that he had been visited by any number of organisations over the preceding weeks. With all the stakeholder assessment going on, he said humorously but pointedly, it was becoming hard to get any work done. The process was producing value for the foreign interviewers but not necessarily for him.

Whenever we are seeking information and insight from others, it helps to ask what we are offering them. Particularly if we follow in the footsteps of companies or government

actors who have ignored or actively marginalised the voices of traditional authorities, communities or civil society, the mere act of showing up and listening may be enough to generate significant goodwill. What we are offering is recognition and respect. But over time this effect will diminish. If people's sense is that they are being used in assessment processes for company purposes, they will progressively opt out and their perceptions of us will change.

A warning sign should be when incentives are used to motivate people to engage in assessment processes. Increasingly lavish lunches or per diems paid to participants beyond their actual needs should tell us much about why people are there. We typically find these unnecessary when we offer as much information and insight as we receive, we are thinking together with our partners about challenges and opportunities that matter to them, and there is some nexus – even if longer term – between conversation and action. We are at that point not collecting data, but having a conversation that matters to both of us. This requires attentiveness to the skills of the people gathering information, the knowledge they have about the issues in question, and the transparency with which they are empowered to act.

*“The only way to get yourself onto their agenda is to make sure that you’re talking about their agenda. If all you can talk about is what you want and need, nothing will move forward.”*

– *Government Relations Manager, extractives industry, Africa*

**The right convenor makes a difference.** We may need to hear from those whom we know are important as a category of people – small business owners, for example – but do not know how to access as individuals. We may also need to bring together different groups – environmentalists and fishermen, for example – who have bad relations among them. We may also know that certain people are suspicious of our motives and unlikely to speak openly with us, if at all. In all of these cases it helps to think about the right person to extend the invitation and facilitate conversations.

The choice of convenor impacts the quality of our assessment in two ways. The first is who will be in the room. One business association that saw itself as an honest broker wanted to facilitate a meeting among business interests and civil society about the direction of economic development in the region, which they knew to be contentious. But their relationships were relatively weak and they were unwilling to share the task of convening with others. Predictably the meeting included only one non-business representative – who told them about a competing meeting of civil society representatives they didn't even know about. The second impact is why people are in the room. Mayors or traditional elders may have the authority to put people in front of us. But they may not be the right people to foster open and honest assessment of issues that in all likelihood concern them.

What we may be looking for in a convenor is therefore someone who is an ally in our purpose – for example, sound enough assessment of the context to avoid harm and mitigate risks – but independent enough to be credible with all parties – for example, not having taken a position on whether or not our project should go forward at all.

**Participatory processes help put the pieces together.** A variety of well-acknowledged approaches to assessment note the value of integrating information-gathering within a larger chain of conversations, particularly when learning about political, economic and social dynamics. One is called Participatory Rural Appraisal (PRA), although it is often used outside rural contexts. It combines gathering, sharing and analysing information. PRA often includes semi-structured activities such as interviews with key stakeholders, focus groups, and workshops.

Such approaches draw on the wisdom of diverse groups at all stages of assessment. In the initial stages the question may be who should be involved, the processes by which they can best be involved, and what issues might need to be on the table to meet both sponsors' and participants' interests. They can note potential conflicts or synergies with other processes and the strengths or weaknesses of different convenors. After a data-gathering process groups can review the completeness, validity and accuracy of the information, and assess the variety of meanings they take away from it. They can also help evaluate the process, flagging who might not have been heard from, potential biases in the data or its analysis, and ways of integrating new insight into the company's and others' decision-making processes.

The paucity of good data in complex environments and the challenges of collecting and analysing it may by themselves justify such rigorous participatory processes. But they have other benefits as well. The company strengthens its legitimacy by recognising that we do not always know what works best and showing that we are willing to learn from others to improve information gathering. We demonstrate in action our values of accountability, transparency, participation and non-discrimination. Finally, because we and colleagues in the company can be active participants in these processes, we build relationships that are more likely to mitigate conflicts or facilitate future dispute resolution if issues do arise.

*“In a country with an authoritarian management style, you need to think about how to engage. Consultations may be better done one-on-one than in larger meetings. Asking for pros and cons of a course of action may be more fruitful than asking for agreement or disagreement.”*

– Factory Manager, consumer durables, Former Soviet Union

**Rigour still matters.** While we want to nurture a culture of inquiring, listening and learning with others in the organisation, we also need to keep focus on technical excellence. There may be a temptation – sometimes shared by process-oriented facilitators – to assume that because we have talked together through a meaningful process we have the information we need for action. Part of rigorous assessment is reflection on what we collectively know and don't know and therefore the limits of our own data collection and analysis.

This may require recognition that experience is not the same as expertise. Although we and our partners may live amongst violence and can describe what happens in a particular

place, we may not know everything we might about the psycho-social dynamics of violence and its prevention. On issues of direct and indirect impacts of company operations ranging from public health to employment generation we may come up with very good ideas that all the same need to be pressure-tested against both expertise and learning from elsewhere.

This may be as simple as remembering to engage experts from local universities in our deliberations. It may require us to network nationally or internationally to connect with others whose experience can guide us. In all cases it helps to ask what other doors we can open to improve our assessments and thus our understanding and action.

## 4.4 What are the sensitivities?

### THE MESSAGE

*Since assessments are often carried out in fragile or conflict-prone environments – defined at the national, local or even project level – we must recognise that they carry the same risks of direct or indirect harm as other company activities. We must proceed with all due care for both the people conducting them and the people we seek to engage in them. Careful management helps us deal with challenges of local adaptation, inclusion, language, and protection of particularly vulnerable classes of people. We can also make conflict and socio-political assessments more meaningful and more efficient when we mainstream them into our more technical assessments.*

**Assessment is another activity that has impact.** We are typically engaged in structured assessment because the stakes are high. We do it for all the right reasons. We want to reduce risks and mitigate harm to people, property or the natural environment, as well as increase our positive contributions in a fragile environment. It may therefore be easy to forget that the assessment process itself is an activity of the company that may have unintended negative consequences for those around us.

Assessments most directly cause harm when they put the people collecting information or those they meet with in danger. People arriving in Land Cruisers asking questions are viewed with suspicion in many parts of the world. Coming to speak about a contentious issue, they may become the target of people's frustration and anger. Where government authority or legitimacy is contested, there may be an assumption that the company representatives are aligned with the government. In authoritarian systems – national or local – people we speak with may be subject to harassment. Local staff and interpreters may be at heightened risk.

Assessments may also cause harm in all the same ways the company's presence and other operations do, discussed in detail in Chapter 2. Disempowerment and discriminatory practices may be reinforced when we listen to some but not others. Whom we hire as a convenor or to help collect data is part of our distribution of direct and indirect benefits among people and groups. Who sees the results of the analysis shifts relative power. In particularly sensitive situations it is therefore often prudent to start large assessments with small ones so that such issues may be appropriately understood and acted upon.

**We may need to be attentive to language.** Assessments often require working across languages at a variety of junctures. An interviewer from the company or an international NGO may not share a language with her interviewee, requiring simultaneous translation. A community meeting in Nigeria among neighbouring communities may take place in English as a shared language, meaning that many participants may be translating their own thoughts from their native tongue into what may be their third or fourth language.

One risk is that information gets lost through mistranslation. Another is that the translator becomes a filter of information, reporting what he believes to be true rather than what the speaker has actually said. This becomes particularly problematic when we assume we have good triangulation of data when in fact we have multiple reports from the same translator. An inappropriate translator – for example, many organisations use their local drivers as translators for an assessment team – may compromise the anonymity of speakers or the perspectives they are willing to share.

Some of these problems are solved when we insist on competent, independent translators who know, for example, to sit next to the speaker so that eye contact and the relationship are maintained with the interviewer, or to study up on any technical terms in advance. We can also encourage everyone in a meeting to speak in his or her native tongue to capture their perspectives with greater nuance and use the wisdom of the group to test translations. Feedback loops allow us to verify literal and metaphoric meaning of what has been communicated.

*“ You may be frustrated that people answer only the questions directly posed to them. You may question their motives when they fail to share important information. But you must remember that it is not natural when people don’t communicate. It is a function of rules that say the poor don’t speak with the rich and the powerless don’t confront the powerful. ”*

– Country Manager, industrial goods & services, Latin America

**Inclusion and non-discrimination are challenging.** In conducting participatory assessments we seek broad consultation with and input from a wide variety of stakeholders. But as outsiders we often find it challenging to gain access to individuals and groups whose voices should be of most interest to us. This is particularly difficult when assessing issues that are perceived as sensitive or taboo in the local context. Notable examples are HIV/AIDS and other sexually transmitted diseases; the role of women in society; and the relationships between social groups.

We may also face the dilemma of reaching out to disenfranchised individuals or groups. We know their perspectives should be respected, but their very marginalisation that is

of interest to us means that key informants may not be able to make their voices heard in regular consultation and decision-making processes. It may be difficult for company representatives to speak openly and honestly with groups of women about their situation and aspirations, for example, in highly patriarchal societies. Even with the support of local partners and interlocutors we often find that it is not possible to conduct meaningful direct consultation with some groups of stakeholders.

In such situations, it is prudent to acknowledge the limitations of the information that comes out of an assessment and seek alternative, indirect ways of considering the interests of unheard voices in decision-making processes. We may need to find proxy voices, for example, among faith-based organisations or advocacy groups whose relationships are stronger than ours. Particularly when we treat assessment as an ongoing relationship rather than a one-off event, over time we can build towards greater direct inclusion.

*“Cultural immersion is not about historical overviews or tips on polite behaviour. It’s about getting to grips with how we relate to people. You must be an anthropologist and a sociologist.”*

– Community Relations Manager, extractives industry, Asia

**We must protect the most vulnerable.** Many issues associated with environmental protection, socio-economic development and human rights are highly politicised in the local context. In many places labour, anti-corruption and human rights activists, and others trying to raise issues on behalf of the most vulnerable and marginalised face real risk of harassment or violence. In extreme cases they simply disappear.

Here the dilemma is that the most pressing and sensitive issues are typically those that are most salient to explore in our assessments. Yet many of the most relevant stakeholders and informants might be difficult for outsiders to consult without putting their safety at risk. Others may be fearful about speaking with us for different reasons. A farmer who has been intimidated and forced off his land by state security forces, for example, cannot be expected to speak frankly with our representatives when we have signed a cooperation agreement with the state.

The short- and long-term safety implications of company staff and informants need to be analysed and considered throughout the assessment process. Mapping of patterns of vulnerability, cultural practices and gender relations, actual and potential conflict lines and dynamics, as well as power structures and political representation help us navigate complex environments. In many situations, established civil society organisations can be valuable partners, serving as proxies in the company’s engagement with different stakeholders.

**Conflict sensitivity can be integrated into all assessments.** When we conduct social impact or human rights assessments, our attentiveness to socio-political and conflict dynamics should be a given. It may be less so when the company carries out

assessments that range across any number of other areas, including engineering, economic, commercial, legal, and environmental domains. The needed data appears to be technical and neutral.

Yet conflict and socio-political concerns permeate all these issues. A legal compliance audit will necessarily need to be attentive to national legislation, but it may also be salient to ask where legislation is absent or perceived to be unfair in ways that could raise tensions now or later. The technical study for bringing water to the plant may need to take into account questions of water availability in neighbouring communities, possible impact on water prices, and in more extreme circumstances, the safety of workers who will need to maintain the pipes. In complex environments the technical and the political are almost always intimately entwined.

Stand-alone socio-political and conflict analyses are perhaps most usefully applied as inputs into other assessment processes. They inform the questions that need to be asked, the analysis that needs to be performed, and the conclusions that can be drawn from other inquiries. Such mainstreaming of socio-political concerns lowers risks: of missed important data; of wasted effort when technically good work must all the same be put aside because of conflict issues; or of friction among functions that, because of separate assessment processes, see the same situation but reach different conclusions.



#### LEADER TO LEADER

## How do we plan amid uncertainty?

Leaders report that complex markets can be turbulent. Things change from one day to the next. Some note with humour that the only thing predictable in the complex environment is that everything will go differently from what is expected. As a manager new to complex environments, they reflect more seriously, one can count on dealing with difficulties never experienced before. They find they needed to let go of everything they thought they knew, and become prepared to be surprised by everything.

To begin with, political tensions are more evident in complex markets. Policy-makers may be arguing over whether the country should look more towards the east or the west. Local content rules or tariffs that can have critical impact on the company can turn on such deliberations. A company leader may have limited influence over such decisions. But the leader must follow them closely enough to be able to adapt company strategies accordingly.

Managers report that it is sometimes hard to glean the motivations and dynamics driving action. If government coalitions are fragile, policy can be particularly volatile. A change in a tax law or an import licensing requirement may be seen by government as a small concession to a particular interest, not a change in its policy towards foreign direct investment. Yet it affects the company all the same.

Background noise can be hard to separate from important information. Leaders say they must always have an ear to the ground – is this something that needs to be dealt with? Paying attention can be taxing; in particularly challenging environments leaders report that they can't relax a single moment. They require a quite detailed understanding of who is who and where in a changing environment. They must constantly scan the horizon.

This is particularly important where they are less able to rely on usual management approaches to understanding developments. The business climate in complex markets can be volatile rather than cyclical in the normal sense. Average performance or trends over any past period may provide little insight about what will happen next.

Managers point out that attentiveness is about seeing opportunities as well as managing risks. The company must be able to manage ups and downs. Even in an economic crisis, business can grow. A modest change in interest rates in a large emerging market may mean that millions more people can suddenly afford the company's product. Under-performance of a particular sector may be driven by under-investment driven by bad policy, which can quickly change for the better.

This requires looking not only at the environment, leaders reflect, but looking at the company in that environment. A particular company can have its best year ever during a revolution. Politics do not alter underlying demographics. Healthy, modestly priced and locally produced foodstuffs, for example, are always needed. Even in the midst of apparent upheaval, there may be enormous opportunities for some actors.

Companies impacted by the global economic crisis, managers experience, are looking for greater predictability driven by centralised control. Far from realities on the ground it is easy for someone to make plans that in the end are based on a guess about GDP growth plugged into a model. The manager on the ground cannot accept such assumptions, but must listen and assess locally. Headquarters will likely want to know, "What's the long-range plan?" But managers find that the more complex the market, the more unlikely it is that the company can prepare a meaningful five-year plan.

Managers find that a focus on centrally and pre-determined processes and outputs may actually reduce predictability. They say their response to headquarters needs to be, "Our plan in a context of great economic uncertainty and policy volatility is to stay nimble enough to seize opportunities when they arise, and step back when there are setbacks." They report that in a complex environment they must stop thinking about strategy as predicting and planning for a particular future.

Their experience is that risk may be better mitigated by acknowledging complexity and adopting a spirit of entrepreneurship for managing it. This means working at all times to maintain optionality. They underline that managers must be financially, technically and intellectually prepared for a variety of futures. They must decide where to go now, and where to wait for another day. At the same time, they can't let volatility make the company solely opportunistic. Leaders acknowledge that their job is to figure out how to stay in the game for the long term, staying focused on a high-growth future.

Managers find that multiple scenarios may be better than predictions in complex markets. The tendency, from headquarters and the field, may be to be trapped by a plan that doesn't reflect reality. Leaders reflect that scenarios are reminders in a context of rapid and unpredictable change to keep asking, "Where are things actually going? Where are the opportunities in the new situation?" The company is as likely to miss growth opportunities as to risk failure by following a bad plan.

The core competency is therefore adaptation rather than prediction, leaders say. They must be prepared to be unprepared. They believe that there needs to be more willingness to take risks and learn by experience. The company won't know whether it can run a profitable business in a particularly challenging region of a country, for example, until it has tried. But they note that a focused push is required. The company must decide that it wants to be an integral part of the market. It is hard to be half in. Managers also note that, in particularly difficult places, there are substantial first-mover advantages. People will remember who came first to help them when others couldn't or wouldn't.

None of this, leaders say, is an excuse for not taking time out for sound planning. Too many managers rush from crisis to crisis and decision to decision. Even when circumstances make it impossible to have a roadmap, the leader must have a vision. What are the strengths of the country and its people? What are the needs of the real economy? By tracking both local and global trends, managers report that they understand where the opportunities will be in the future. Only by incorporating these factors within a rigorous plan can they know whether they are on track or off track, keeping focus on what matters in the middle of a host of distractions.

## 4.5 Who is responsible?

*Assessment is often a problem that everybody faces but nobody owns. Policies that call for informed action attentive to socio-political and conflict dynamics across all of the company's activities are one starting point. Leadership prioritisation of issues for assessment is another. Accountability for assessment best resides with the managers and functions taking action, supported by broader capability-building as well as specialised expertise attentive to systems-wide issues and opportunities. Responsibility for assessment can be shared with stakeholders outside the company, helping meet our needs for better data as we help build a broader culture of decisions made on sound data and evidence-based analysis.*

**Prioritisation is a leadership function.** Rigorous assessment and its use to improve decision-making begins at the policy level. Policy can articulate the principle of informed action attentive to socio-political and conflict dynamics across all of the company's activities in the complex environment. It can also lay out more operational guidelines. For example, sensible company policy at the local level might mandate third-party monitoring and evaluation for all social investment projects above a certain threshold amount; require that all external partnerships in which the company participates include assessment processes; set standards for transparency of different company assessments; or determine a review cycle for the assessment processes of the company in the aggregate to ensure that these are meeting business and social needs. Our country management team can thereby reduce ambiguity and enable responsible action by setting expectations for the organisation.

Further intervention by the senior management team will likely be required to help set priorities. The Guidance Notes for the International Finance Corporation's Performance Standards on Environmental and Social Sustainability – only one of many standards for assessment under which a global company may be operating – run over 270 pages. The goal cannot simply be to answer every question posed in every available resource or checklist. More productive may be a conversation among our senior team that sets out key concerns and issues related to particular dynamics in the external environment, a specific project phase, or a region of the country. We can then ensure these are emphasised across a variety of assessment processes. While much assessment tends to start from a blank slate, inquiry that builds from existing insight and well-articulated hypotheses may be more productive.

**Assessment lives most fruitfully with the function taking action.** Those in charge of industrial operations would not be able to do their jobs if consulting engineers did not work intimately with them. The marketing department would find it untenable if marketing research did not report directly or indirectly to them. Yet assessment of socio-political risk, compliance with social standards, or human rights impact often runs in parallel universes with stronger connections to headquarters or external affairs processes than to colleagues working in the local market.

If functional managers are to take effective action, they must do more than supply information for or receive copies of company reports. Whether they sit in sales, operations, contracting, or employee and labour relations, we must work to make them active participants in the formulation of questions, the integration of assessment processes into ongoing operations, analysis of data, and formulation of conclusions about required action. In most cases this starts with the leadership conversation we initiate. If we ask pointed questions about the rigour of assessment processes used to identify dynamics that present risks, predict direct and indirect impacts of our action, and determine compensatory action, our colleagues come to understand that they are responsible for basing their decisions on valid, reliable and accurate information.

This is not to deny the important role of internal or external audits to maintain integrity as part of good governance. But just as we do not permit the company auditors to crowd out the important daily work of the finance department in collecting and analysing information, so too we can support functional ownership of assessment processes.

*“To stay attentive and not become complacent is a challenge for managers. New managers risk overestimating their preparedness for new environments. Experienced ones risk overestimating their old solutions or thinking there is one fix for all of them.”*

– Senior Advisor, portfolio investment company

**Broad capacity is required across the organisation.** Our employees are some of the most important sources of information the company may have: they observe data and they create data through their daily interactions with the people and events around them. Yet left entirely to their own devices they may be challenged to make sense of what they are seeing and experiencing. Colleagues may require general sensitisation to the dynamics by which companies and complex environments impact each other. They may also benefit from specific orientation on the particular social, political, economic or conflict issues prioritised by management as potentially serious risks. Such capacitation may significantly increase the number of eyes and ears contributing to our assessment efforts.

Maximising the value of employee contributions to assessment also requires transparency within the organisation. One manager noted that, “*Far too often companies treat strategy as where they hide information.*” The company considering launching a new business venture or winding down an old one may hold back information for what it believes are legitimate business reasons. Yet unless company employees understand these company strategies and the implications for its operations, they cannot be assessing their likely impact on or reactions from affected interest groups and key individuals. Companies like Electrolux have found ways to operate with a great degree of transparency that they found useful in a complex environment. In addition to the trust-building benefits explored in that case story (page 122), such approaches alert staff to stay attentive to consequences or opportunities for the business.

**Expert assistance is still needed.** Assessments of socio-political, socio-economic and conflict dynamics as they relate to the company and its operations often present technical challenges and political sensitivities. While accountability for sound information and analysis may best lie with the function taking action, our colleagues may sometimes need help.

Assessment often belongs to the class of problems within an organisation that everybody faces but nobody owns. Just as safety remains the responsibility of every manager and employee yet is supported by a strong safety function, we may need to think through where deeper expertise for assessment lives within the country organisation. First of all, consulting skills may be required: people with the expertise and ability to work across a number of functional domains to help colleagues plan and implement assessments that support more effective strategies and operational plans or more useful performance feedback.

A systems view may also be useful. A central point of accountability and expertise can help provide a hub for tracking information needs and priorities internally and externally, locally and globally; coordinate assessment efforts inside and outside the organisation for greater coherence and efficiency; connect available data sources and develop new ones; facilitate internal processes that help collect and disseminate insights; or provide a bridge to experts and strategic partnerships. Thoughtful management can decrease the burden of assessment while increasing its utility.

*“Strategy must be inclusive of transparency, communication and coordination among companies, government, and development actors. There needs to be less marketing and more joint assessment to create a balanced and common understanding.”*

– Country Manager, extractives industry, Africa

**Responsibility can be shared outside the organisation.** Beyond sharing our findings with others, we can help them to reach their own conclusions. An increasingly well-developed body of practice has grown up around community-based monitoring systems (CBMS). A typical CBMS trains local researchers to collect data at a level of detail and precision difficult to match by outsider-driven assessments. In the social arena, for example, it is not uncommon for a CBMS to collect data on every household in its defined area. CBMS is applied in economic, social, political and conflict domains.

We may meet a variety of interests by sharing responsibilities for assessment through CBMS and related approaches. We increase the validity, reliability, accuracy and legitimacy of data through its collection by those closest to it. We may achieve real cost savings through lower-cost local resources. We can reduce disputes over factual matters and create confidence in our actions as people understand the assessments that underlie them. We may also help people see their own role in problems and solutions – for example, in water pollution – helping to set appropriate boundaries for company responsibilities and responses.

More broadly, the more we build our own business decisions around solid assessment, the more we see the value of governments, communities, business actors, and civil society organisations making their choices – even ones we may not wholly agree with – based on sound data and evidence-based analysis. CBMS can at the same time support the capacities of local government and help people hold government and other actors accountable. To the extent that their decision-making becomes more predictable, our own task is more straightforward and the overall environment more stable.

## 4.6 How do we turn insight into action?

### THE MESSAGE

*A variety of familiar tools help us focus on the most salient data to continuously improve the effectiveness, efficiency and expected impact of our operations in a complex environment. Systems maps can help capture dynamics in a manner that is easily grasped, shared and subject to challenge. Scenarios allow us to prepare for and monitor a variety of possible futures where poor data and rapid changes make forecasting unreliable. Explicit theories of positive and possible negative impact reduce the risk that our interventions will be inappropriate to the context. Incorporating all of these into strategic and operating plans helps harmonise our assessments and keep them current and useful within the organisation.*

**A starting point is a systems map.** Most businesses will be familiar with systems maps from their variety of uses. One map might capture the energy and material flow for a wastewater treatment facility, while another might show the pressures on movement of goods within a regional economy. Each attempts to communicate the complex inter-relationships among a variety of factors in a manner that is easily grasped and shared.

A systems map can also help make sense of the complex environment for company managers. A company may move into a region of a country that – although benefiting from a recent peace agreement – remains conflict-prone. The company may see both commercial agriculture and mineral deposits being developed. These may compete for scarce water resources. They also require claims to land that may be the home to an indigenous people largely marginalised from the political process. The local authorities who operated largely without public accountability during the conflict may be chafing at growing oversight from the capital, while a splinter group from the rebels who signed the peace accord may be looking for a way to reassert their legitimacy and continue their struggle. A systems map can help capture such players, interests, forces, and their inter-relationships to help make visible the structure of the system at a given point in time.

When incorporated into company planning systems, socio-political systems maps can help make what may otherwise be largely implicit assumptions about social, political, economic

and conflict dynamics that shape how the company is operating verifiable and subject to challenge. They can serve as reference points as we consider our own actions in the complex environment and how these may impact positive and negative dynamics of which we will become part. Periodically reviewed and updated they can become an easily accessible repository for diverse data and analysis about the environment around us that may not otherwise have an obvious home.

**Scenarios are better than predictions.** Company leaders are often enough called on to predict the future in order to make plans and allocate resources. In more stable places managers rally the highest-quality available data and insight and make the best possible forecasts. There is often high value placed on predictive reliability.

Because of poor data and rapid changes that make forecasting unreliable, many managers note that scenarios are more useful than predictions in a complex environment. Where a forecast is as likely as not to result in being “*trapped by a plan that doesn’t reflect reality*,” it may be more important to focus on scenarios that may emerge from how key risk factors develop over time. In our region of operations described above, we may conclude that future rebel splinter group support and future reform of the local government are the driving uncertainties. The “good government/low support” scenario is the most stable, while “bad government/high support” returns the region to chaos. “Bad government/low support” may be a recipe for cronyism and corruption, while “good government/high support” may result in sporadic security risks. If our analysis is sound, one of these scenarios represents at least in broad terms where the region may be headed.

Such a simple matrix can capture a variety of possible futures in a way that facilitates active monitoring of events in the complex environment as they actually unfold. It may also uncover opportunities for the company to influence which scenario develops, for example, by treading carefully around indigenous land issues that are a potential source of rebel support or by joining good governance initiatives. In this way scenario planning can help move our company towards dynamic analysis and understanding of the environment as part of general management practice.

*“It is unlikely that you can prepare a meaningful five-year plan. You must be financially, technically and intellectually prepared for a variety of futures.”*

– Country Manager, engineering services, Middle East & North Africa

**Explicit theories of change help keep us alert to the impacts of our own and others’ actions.** Underlying company actions in a particular complex environment are its assumptions about how they effect change. These may not even be the result of conscious decision, but rather may be imbedded in the policies, processes, and favourite methodologies of the company.

A company may, for example, have a practice of introducing micro-credit schemes governed by a local council in its operations areas in partnership with a global NGO. The underlying – even if implicit and rarely discussed – theories of change may be that “micro-credit creates opportunity among those less likely to benefit from the company’s presence, lowering

resentments,” and that “the inclusive nature of the local council reduces the ability of one group to dominate another.” Explicit statement of our underlying theories invites us to consider their validity. Introduced into our region and its particular driving uncertainties we can consider, for example, how our scheme impacts existing local lenders not yet sympathetic to the rebels or how our creation of a new local council with significant resources at its disposal may create strong incentives for those in power to steer us towards only token minority representatives. Statement, monitoring and assessment of explicit theories of change reduces the risk that our interventions will be incomplete or inappropriate to the context.

We can also use theories of change to monitor possible negative impacts from our own or others’ actions. We might explicitly note that, “If our failure to develop local contractors results in large and visible imports to support our operations, then we will lose the support of both local business and the community.” Paying attention to the actions of others, we might see that, “If the Ministry does not appropriately address labour-management conflicts in factories that supply us, then we may become entangled in labour rights violations.” Like our theories of positive change, such explicit theories of possible negative impact signal to the organisation what is important and what should be watched out for.

*“Scenarios are better than predictions. They remind us in a context of rapid and unpredictable change to keep asking, ‘where are things actually going? Where are the opportunities in the new situation?’”*

– Regional Manager, engineering services, Southwest Asia

**Assessments ultimately reside in our daily actions.** When we routinely collect, analyse and reflect on information about the local context in which we operate and the company’s impact on that context, we generate hands-on insight to continuously improve the effectiveness, efficiency and expected impact of our operations. One challenge is identifying the salient information to collect. We may often feel like we are information vacuum cleaners, hoping that there are diamonds among the dust collected and that we will recognise them when we see them. Given the frequent use of thick reports as paperweights and door stops, another challenge is finding a place for even important insight to remain accessible and relevant to managers.

The socio-political systems maps, dynamic scenarios, and theories of positive change and possible negative impact described in this section are examples of approaches that help prioritise our assessment activities and integrate our insights across our various assessment processes. We must at the very least have the information at our disposal that allows us to create such maps and scenarios and situate our own activities within them. As we consider particular business operations, social investments or partnership activities we must gather and analyse the data that will allow us to articulate explicit theories of positive change or possible negative impact and then monitor and evaluate whether our impacts in fact emerged as intended.

To stay fully alive and useful within the organisation, these tools and analyses must be further integrated into company management systems. Our leadership task in the complex

environment is therefore to ensure that strategic and operating plans orient ongoing and future initiatives within the systems map; show how they are adaptable to the variety of scenarios that may unfold; and articulate explicit theories of positive or negative impact on social, political, economic or conflict dynamics. In this way effective assessment is both present- and future-focused. Continuously updated assessments inform strategic and operational decision-making as well as daily action.

CASE STORY:

# *How do we put all the pieces together?*

*Tetra Laval Food for  
Development Office*



*Tetra Pak is part of the Tetra Laval Group. For almost 50 years it created shared value through its support of school milk programmes in developing countries. These programmes deliver an important source of nutrition to growing children and at the same time help create stable markets for Tetra Pak's processing and packaging customers. Building from these successful initiatives it became clear that Tetra Pak would need to invest in capacity for more rigorous and scalable solutions to support and develop complex value chains in developing markets. Tetra Laval's Food for Development Office, which coordinates these programmes, works with the company's own country operations and a broad range of local and international partners to achieve systemic solutions.*

## *Deep engagement in developing countries*

In the 1950s, Tetra Pak launched its first machines designed to package milk products with a minimum of material while providing maximum hygiene. By 1961 Tetra Pak had perfected commercially viable aseptic processing, in which bacteria-free milk could be dependably filled in sterile packages developed by the company. From that point forward milk could have a longer shelf life and be distributed with reduced need for refrigeration in the supply chain. Countries could be targeted for Tetra Pak expansion that did not have sophisticated or dependable infrastructures for fresh milk and dairy delivery and storage. In 1964, the first Tetra Classic Aseptic machine outside Europe was installed in Lebanon. By 1987, the company had provided its packaging machines to dairy processors in 100 countries.

Tetra Pak's expansion was intertwined with child nutrition in developing markets from its early days. Its founder Dr. Ruben Rausing had taken an interest in the lack of protein-rich nutrition in many developing countries, without which children could not reach their full potential. In 1960 the first production plant for packaging material outside Sweden was started in Mexico. This helped open the door to the first school milk programmes using Tetra Pak packages in 1962 in partnership with the National Institution for the Protection of Childhood of Mexico. Other programmes followed, with expansion of school milk programmes into countries such as Japan and Kenya in the 1970s. The linkages between nutrition and business expansion were often explicit. Tetra Pak signed a major contract with Iran in 1975, for example, within the framework of an extensive social programme highlighting the protein supply.

Tetra Pak has also long provided assistance for the development of dairy industries. The recognition that Tetra Pak could only grow where its customers were growing led it in 1988 to create the Hindustan Packaging Company Ltd., a packaging material joint venture between Tetra Pak and the National Dairy Development Board in India. The value of stimulating and supporting dairy production led Tetra Pak in 1991 to purchase the Alfa Laval Group, started in 1883 as AB Separator in Sweden as the first company to commercialise the cream separator and the automated milking machine. The Alfa Laval Agri Division would become DeLaval. DeLaval helps large and small-scale farmers improve milk production and animal husbandry, addressing feeding, milking, herd management, energy recovery and other technical challenges. DeLaval customers, of course, are natural suppliers to Tetra Pak's processing and packaging customers as well.

## *The complexity of growing the dairy sector*

The need for Tetra Pak – a supplier of systems for processing, packaging and distribution of milk as well as other types of liquid food – to become involved in the entire dairy value chain is tied in part to the complexities of the dairy sector. Where there is not already a well-established dairy industry, its expansion is difficult compared even to other food products. This is particularly true if a goal is to support rural development.

Across tens of thousands of family operations, farmers need technical knowledge to produce commercial-quality milk. Once brought into production, a dairy cow cannot be turned on and off at will. A family farm that is not paid quickly and fairly for the milk it produces will not be able to pay for quality feed or other animal care for the next week's production. Milk must be dependably collected on a twice-daily basis and safely transported to a processing centre for separation, pasteurisation, and packaging, or it is wasted.

At the processing and packaging level, machinery in turn is only economical if it is operating at capacity, undermined by any interruption in the supply of fresh milk. Dependable distribution systems must deliver dairy products to the customer. Finally, demand must grow among customers who have not necessarily been in the habit of buying milk or other dairy products, and who on past experience may have concerns about its safety.

A functioning dairy sector requires a clear line of sight and no interruptions from “cow to customer.” A carefully balanced system of production, processing, distribution and marketing must be created and maintained.

## *Tackling complex value chains*

In the 1990s, Tetra Pak found itself in market situations that underlined both the imperative for and the value of addressing all elements of the dairy sector together. In one case, Tetra Pak's finance arm was deeply engaged in Russia. Its goal was to support business development even where potential customers did not have access to “practical financing” from the commercial banking sector. Tetra Pak worked to increase opportunities for equipment leasing, rentals, and purchase finance. But for Tetra Pak's finance arm to be repaid and the company's packaging materials to be purchased, “the machines supplied had to be working.” This required Tetra Pak to look with its processing and packaging customers at local milk production, which had fallen dramatically with the breakdown of the Soviet Union and the opening of borders to higher-quality and less expensive imports. Dairy suppliers needed finance support along with technical training. There was also need to restore consumer confidence in local milk as a healthy and nutritious food.

In a market such as Russia it was evident that repayment guarantees would not come from contracts that were signed. “The best possible security for the credit Tetra Pak extended was a functioning value chain.” This need for operational success required Tetra Pak itself to “help create positive linkages.” One project combined funding from the Swedish government to support training and market development activities with commercial equipment financing to the Petmol Dairy and ten large milk producing farms through Tetra Pak's finance arm. This integrated value chain approach resulted over a four year period in a 26% increase in milk production, virtually all of which was of premium quality. Russia decreased its reliance on imports and Russians reduced consumption of unhealthy “street milk.” This project was an important model for and step towards a highly developed Russian dairy sector.

In another case, the United States government, wanting to “do something fast” for the new democracy in Indonesia during the economic crisis of 1999, decided to donate surplus milk powder. But what exactly does one do with tonnes of milk powder arriving in port? Tetra Pak suggested that it be used to launch a school milk programme. The programme rallied the Ministry of Education and its School Health Coordinating Board, three dairy and food processors, seven locally based Indonesian NGOs, over 13,000 school headmasters and teachers, the Land o’ Lakes Foundation from the US, and Tetra Pak itself – not to mention the 437,000 students served and their parents. With tens of millions of dollars in financial support from the US Department of Agriculture, the challenge was not one of resources, but of coordinated action.

Independent evaluations verify the impact the Indonesian school nutrition programme had on students, including improved attendance rates on days when milk was provided at school, improved height and weight of students, and improved cognitive functions in math and language by students. Equally important were the ways in which a school milk programme of such scale could be leveraged to improve markets. Processors expanded distribution to outer islands of Indonesia by building on channels opened by the school nutrition initiative. Food safety, including both prevention of food-borne illness and information management and medical intervention for food-related illnesses, improved across the board as a result of focused attention in the school milk programme. And along with its processing and packaging customers, Tetra Pak’s own business grew.

But as successful as these Russian and Indonesian examples were for Tetra Pak, they also highlighted challenges for the company as it tackled support for complex value chains. On reflection, success was too often attributed to the good fortune of having the right person in the right place at the right time. It was becoming increasingly unrealistic to expect individual country operations to manage large-scale, multi-stakeholder programmes that required trust-building and careful coordination across a variety of sectors, as well as the knowledge and relationships to engage donor support. Expertise that enabled the success of sophisticated initiatives needed to be more dependably deployed.

The experiences also expanded the company’s sense of the possible. Support for a milk feeding programme requested by a municipality and supported through donations could rightly be considered a positive initiative. But the company now saw with greater clarity the broader impact and greater sustainability of programmes that allowed production, processing, distribution and market development to be addressed simultaneously and at scale. Such initiatives had the potential to grow an entire sector to help feed developing countries.

Opportunities to create and sustain complex value chains – in particular those that helped meet the nutritional requirements of growing children – needed to be dependably, systematically, and proactively pursued as business opportunities for the company. They needed to be undertaken together with a range of governmental, intergovernmental, civil society, and private sector partners. Tetra Pak management was faced with the question: how do we put all of the pieces together?

## *The Food for Development Office*

The answer the company developed was the Food for Development Office (FfDO) launched in 2002. FfDO is not a foundation or NGO, but rather a headquarters-based business support function. Its Programme Directors are based in different regions around the world with a

dual reporting structure to the FfDO Global Director and the Tetra Pak regional business unit head. FfDO's six core staff are experienced experts. They work with approximately 40 coordinators who are staff of different Tetra Pak country offices. The FfDO work of these coordinators may range from a small part of their job to 100% focus on a new programme. FfDO supports sustainable development that grows Tetra Pak's business.

A key role for FfDO is nurturing the partnerships required for a school feeding programme to work. All parts of the puzzle must be accounted for, from community involvement and safety systems to data collection and evaluation. The "diversity of the stakeholder base" requires "outstanding communication" and transparent governance structures that function even where relationships between industry and government or among national and local authorities may not yet be strong. Tetra Pak's FfDO notes that, "It is increasingly normal to include the private sector in cross-sectoral partnerships and consider shared solutions." Whether for purchase of milk for school programmes or outreach to smallholder farmers, a mix of private and public investments may be required. All the same, expectations, objectives and roles must be carefully clarified among partners. Implementation committees must be able to take decisions and dependably make necessary actions happen.

FfDO helps all programme partners focus on sustainability. Imported milk powder, for example, is problematic over the long term for a school milk programme in a developing country. Any donations of milk powder or funds for its purchase will inevitably end. Imported powder is equally problematic for local processors, as became painfully evident when prices of milk powder more than doubled in connection with the latest food crises. In a country like Senegal where local dairy production may for climatic reasons be less viable, sustainability may entail a shift from imported milk powder to nutritious grain-based drinks that can be locally produced. In Zambia, a country with potential for a more robust dairy industry, sustainability may take the form of training and education for farmers and milk processors as well as commercial financing of plant and equipment to allow local producers to compete against milk imports from neighbouring countries.

Maximising social benefits requires leveraging public programmes to expand private sector markets. Many years ago, the Institute of Nutrition of Central America and Panama (INCAP) developed a fortified powder called Incaparina as a nutritional supplement. In 2008 FfDO helped create a liquefied version to account for the frequent unavailability of clean water in which to mix it. Made from locally produced maize and soy and first used in social programmes in five countries in Latin America, it is now a commercial product that "flies off the shelf." In Indonesia, new products developed for the feeding programme included fortified milk, pea-flour biscuits and pea-rice milk drinks that achieved commercial viability past the end of the funded project. Low-cost 125 ml and 200 ml pillow packs introduced in schools were commercialised by Tetra Pak's customers to great success. In Bangladesh, a donor-funded school feeding programme launched in 2002 helped establish three local ultra-high-temperature (UHT) milk processors where before there had been none. These commercial successes ensure that safe, affordable, nutritious products remain available to public programmes and the broader public alike, while supporting local producers.

FfDO has built over more than ten years of operation recognition of its expertise in school feeding and comprehensive value chain development. Where before there were few platforms for collaboration, FfDO now partners with the Global Alliance for Improved Nutrition, the United Nations Children's Fund, the World Food Programme and others at the global level, building support for its policy papers and concept documents on child nutrition, implementation of school feeding programmes, dairy value chains, and



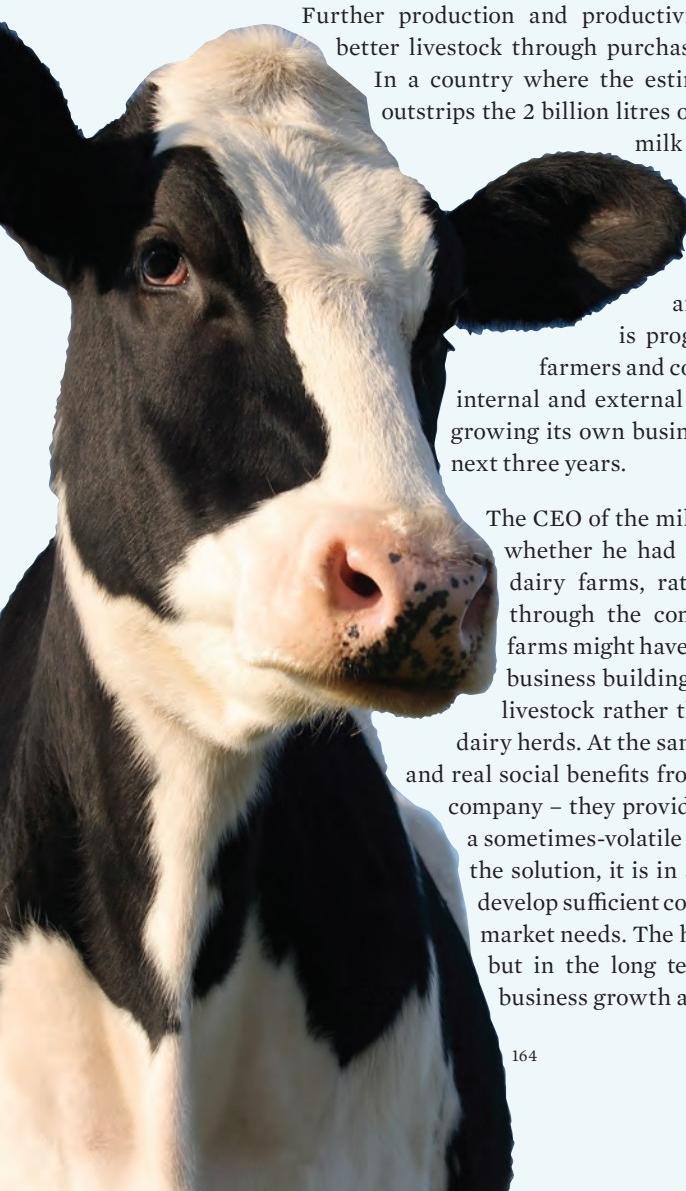
rural development. At the same time it must ensure that what is said internationally is delivered locally, building data collection, quality control and independent evaluation into programmes on the ground. FfDO also helps connect governments to governments and companies to companies so that they hear directly from their peers about challenges and solutions for school milk programmes or small-scale dairy production.

FfDO's broad network helps Tetra Pak proactively identify and pursue new opportunities. China's learning from Thailand piqued its interest in school milk programmes. FfDO shared with the government of Rwanda its School Feeding Implementation manual, resulting in the launch of a school milk programme only two years later. Credibility translates into effectiveness. FfDO's expertise also lets Tetra Pak act in more difficult and sensitive markets, moving for example into Myanmar last year. As of the end of 2012, Tetra Pak is involved in programmes in 62 countries touching 67 million children, 45 million of whom live in developing countries.

## *Building systemic local solutions*

The next frontier for FfDO is to "transfer the whole systems view to Tetra Pak's dairy processor customer." It is perhaps "not so difficult to increase milk production to help feed a growing world." In Bangladesh, for example, encouraging farmers to provide milk cows free access to water (rather than taking them to water twice a day) and a maize-based diet that is less expensive but more nutritious than the feed traditionally used has proven to double their milk production. But for this production increase to matter, it must be followed through with collection, payment, processing, packaging, distribution and marketing. And to be successful at any scale, this must all be locally managed.

FfDO is now working with a major Bangladeshi processing customer to establish dairy hubs. The manager of the commercial dairy hub is responsible for all aspects of the supply chain within the hub's geographic footprint. The hub provides intensive outreach and free education to small-scale dairy farmers. It provides veterinary services at cost that ensure



healthy cows. Milk is collected and tested twice daily. The hub guarantees purchase of all quality milk produced and pays farmers weekly in cash. Meanwhile, the company's marketing arm expands its customer base and provides the hub with production targets. The hub collects data across its activities and can provide a comprehensive picture of the dairy value chain on a weekly basis. There is a single point of accountability, whether for adequacy of milk production, quality of vaccines, or processing and packaging efficiency. This provides the daily vigilance required to make sure that all of the pieces are working together in a synchronised manner.

The success of the dairy hubs is remarkable. The first hub opened in September 2010 in an area where 30,000 litres of milk per month were available. That hub is now processing more than 500,000 litres per month. Where a family before might have had one cow or two, it is now not uncommon for a family to have ten. In 2012 a second hub was started and today more than a thousand small-scale farmers have moved from producing milk for family consumption or episodic sale to milk production as a primary source of family income. Sales of milk, calves, and dung (used locally for fuel) raise family incomes. Farmers are paid more per litre of milk than they were before the establishment of the hubs, even while the processor's cost of acquisition per litre of milk has decreased and the quality of milk collected has increased.

Further production and productivity increases are expected as investments in better livestock through purchases and breeding programmes begin to pay off.

In a country where the estimated 10 billion litres of demand per year far outstrips the 2 billion litres of annual local production – and only 5% of local milk production currently enters the commercial value chain – expansion opportunities seem nearly unlimited. The producer is opening a third dairy hub this year and broadening production to include higher-margin cheese and dairy dessert products. Tetra Pak's customer is progressively assuming FfDO's role in outreach to farmers and coordination of the various links of the value chain internal and external to the company. At the same time, Tetra Pak is growing its own business in Bangladesh, expecting it to double in the next three years.

The CEO of the milk processing and packaging company was asked whether he had considered establishing large-scale commercial dairy farms, rather than working with small-scale producers through the company's hubs. He admitted that owning large farms might have been simpler. But the hubs allow him to grow his business building on the "installed asset base" of local farms and livestock rather than investing his capital in land, cowsheds and dairy herds. At the same time the hubs provide dignity to local farmers and real social benefits from rural development – explicit goals of his own company – they provide social and political support for his business in a sometimes-volatile environment. And even if large farms are part of the solution, it is in any case unimaginable that the company would develop sufficient commercial farming capacity to meet the enormous market needs. The hubs are in the short term perhaps more difficult, but in the long term a more stable and sustainable solution for business growth and profitability.

## *Expert coordination as risk reduction and market development*

Tetra Pak founder Dr. Rausing had originally developed his packaging machines and milk cartons after seeing the growth of convenience stores in the US and predicting that European customers would soon demand readily available dairy products. But it became clear that Tetra Pak's sterile packages were particularly appropriate for developing countries. School milk programmes helped meet a genuine need for better child nutrition, while becoming one stable source of business for Tetra Pak's milk processing customers. Support for dairy production both helped local farmers and provided safe and reliable milk that filled Tetra Pak's packaging. Decades before the term came into common usage, Tetra Pak learned that "shared value" needed to be created for the company and the developing countries in which it did business in order for it to succeed.

But each individual element of the dairy value chain faces risks and challenges. In Bangladesh the farmer needs at least one year of healthy production and uninterrupted milk sales to justify the purchase of a cow. The government cannot easily invest in school nutrition programmes without a link to local production that lets them see long-term availability of affordable inputs. A new milk processor requires the assurance of a growing supply of quality raw milk and will benefit from a public programme as an anchor customer to ease the transition from entry into the dairy market to profitability. The broad experience of rural development and commercial investment is that such connections do not emerge spontaneously or in synchronicity in difficult environments.

Tetra Laval's ability through its Food for Development Office to facilitate and support the interconnected pieces reduces risk sufficiently for a variety of role players to take action. As its dairy hub partner pointed out, "Tetra Pak's investment was not high in dollar terms; we bear the investment costs and risks. But they provided dedicated staff and know-how, holding our hand when we needed it." FfDO does the same for farmers, governments, and its other commercial partners. To increase scale and sustainability, it increasingly works to pass this coordination function on to its local partners.

And FfDO does so as a core function of Tetra Pak's business. "If we make money, it is because we helped a local business succeed. We earn our fair share of a much bigger pie." This requires local focus, long-term thinking, and perspective on all elements of the challenge. "We can't succeed even as the best supplier of the best processing and packaging solutions. We need to be the best facilitator of systemic change."

THIS CASE STORY WAS WRITTEN BY BRIAN GANSON. IT IS BASED ON INFORMATION PROVIDED BY TETRA LAVAL.

### ABOUT TETRA LAVAL GROUP

The Tetra Laval Group consists of three industry groups: Tetra Pak, Sidel and DeLaval. All are leaders in their respective fields of operations, focused on technologies for the efficient production, packaging and distribution of food. The Group has 33,000 employees. It operates in more than 180 countries and had net sales in 2012 of 13.6 billion euros. (More information is available at [www.tetralaval.com](http://www.tetralaval.com).)

# 5

CHAPTER 5:

## Are we working well with others?

*“You must be open and curious. Building trust and confidence with all stakeholders is a crucial part of the job, and a key leadership task that must be continuously discussed within the management team.”*

*– Country Manager, agribusiness, Asia*

*An excessively functional view of stakeholder relationships undermines the learning, dialogue and ability to plan and work together that lower risks and open new opportunities. Indeed it may only be through a shift in mindset from doing business in a complex environment to leading an enterprise that is an integral part of a multi-faceted society that we achieve enduring sustainability. Putting such thinking into action requires individual and organisational behaviour changes as well as responsible corporate diplomacy at the local, national and international levels.*

We need to engage with different stakeholders: to obtain and maintain legal and informal permissions to operate, build our local value chain of suppliers and customers, manage the direct and indirect impacts of our operations, administer our social investments and charitable giving, and generally go about the business of getting things done. Particularly as general managers it is our job to work with and through others.

Yet many a personable and talented leader – committed to fair dealing and win-win solutions – may face eroding confidence and increased tension in stakeholder relationships. Trust evaporates, transaction costs increase, conflict escalates, and opportunities diminish.

When that happens we may need to review whether our focus on our plans and what we need to achieve them is undermining the learning, dialogue and ability to plan and work together with people whose perceptions, priorities, timeframes, processes, and resource constraints may be very different from ours. In complex environments even more than elsewhere, lowering risks and opening new opportunities for the company require a commitment to the nature and quality of stakeholder engagement.

A fundamental mindset shift may be required. Companies and their stakeholders are on a common path and share the same ecosystems. The actions of companies, local communities, governments, local and international NGOs, and others all shape economic, social, political, environmental and conflict dynamics. To achieve enduring sustainability our definition of our role may need to change: from being an outsider doing business in a complex environment to leading an enterprise that is an integral part of a multi-faceted society in transition. It turns out they are not our stakeholders; we are each other's.

Putting such thinking into action requires behaviour shifts by people throughout the company. Attentiveness, care, readiness to change, creativity, and humility are key to our diplomacy at local, national and international levels.

These questions help us explore and improve our working relationships in a particular complex environment:

- 5.1 Are we engaged in real dialogue?**
- 5.2 Are we leaving anybody out of the conversation?**
- 5.3 Are we supporting solutions to broader challenges?**
- 5.4 Are we willing to help others take ownership – and even be in charge?**
- 5.5 Are we good allies and partners for the future?**
- 5.6 Are we modelling ethical leadership?**

## 5.1 Are we engaged in real dialogue?

*Communication among the company and different parts of society is at the heart of a sustainable business and its contributions to local development. The key to this dialogue is humility: tangible demonstration that we know we are part of larger systems and processes that require us to listen, learn and decide with others how we might play the most constructive supporting role. Early engagement and transparency about the problems and risks that come along with our activities build trusting relationships. As we take our commitment to dialogue with those around us more seriously, we find that we help shape dialogue among other actors in ways that make challenges easier to address by all.*

**Dialogue is fundamentally about humility.** Company managers and staff often enough talk about “their” stakeholders. They develop processes to “manage” stakeholder relationships. They invite people to company headquarters for “company-stakeholder engagement forums” and hear feedback on “their” plans. Putting ourselves in the shoes of government officials, community leaders, or civil society activists, we can quickly see how people resent being thought about as factors in the company’s environment to be managed or being invited into processes that put the company and its activities at the centre of the universe.

We may have more success when we rather see the company as one stakeholder in a larger development process that we have not initiated and in which we play possibly an important but still not central role. Our task in this system is to listen, learn and respond in ways that ensure the company supports positive developments to which people aspire and helps manage negative ones that concern everyone.

Dialogue from this perspective demonstrates reciprocity and humility. A tangible expression of this attitude is the integration of our plans and activities into a broader framework. One company in Ghana entered into an agreement with public authorities and an international NGO to integrate social investments led by the firm into the larger development plan at the local government level. A positive side effect of the respect shown was that public authorities themselves became more willing to provide needed services in the area. Such actions show we understand that we’re not the only one with ideas or plans and that we don’t consider the company more important than anyone else.

**Dialogue helps keep us out of trouble.** Companies often enough react with disbelief to developments around them. In the AES-SONOL case (page 30), the power company faced default on its loans when the government failed to approve its rate increases. A company was forced to withdraw from Bolivia when the population protested water price increases that came with its role in privatisation. Footwear and apparel companies again in the international news because of child labour or work conditions scramble to put even more complex monitoring systems in place. Yet the conditions around us are far from unknowable and the perspectives, interests and motives of people rarely perplexing. If we

find ourselves surprised by events or people's reactions to them we may need to ask to what extent we were actually listening.

Multinational corporations who sign contracts with public authorities that define their duties may consider local communities and other constituencies a matter of public relations; they may not be considered relevant or priority interlocutors. Such attitudes increase risks to the company, especially in complex contexts. In environments where people may have less faith in government to represent their interests, direct action against the company is far more likely. The company benefits when it adjusts its perspective on relationships with other people and organisations accordingly. Additionally, the company that does not engage proactively in listening and ongoing dialogue has no reservoir of trust or relationships to build from when problems arise.

*“It is critical to not measure success within the time period of your tenure, but to do so rather in terms of foundations built and legacies left. This requires humility on your part: not worrying about your own footprint, but rather being willing to pass on a gift.”*

– Stakeholder Relations Manager, agribusiness

**Openness up front eases the path forward.** By engaging proactively before the beginning of our projects, we reduce the risk of social disruptions and create conditions for long-lasting operations. If we consider community members, government officials and civil society active partners in the development of our plans we show our concern for them. We increase the likelihood that people will be willing to engage in discussion and cooperation, rather than assuming that our relationship is one of bargaining and power relations.

Simple, straightforward actions often begin the process of demonstrating openness: answering communications, informing people about what is going on, speaking to people as social equals, walking through town rather than driving in a closed vehicle, informal socialising, using language that people understand, or demonstrating interest in and respect for important cultural sites and symbols. As one manager has said, “*What is required for success in a complex market is not hard to describe in general terms. Most of the time it’s the quality of execution that makes the difference.*”

In Papua New Guinea the relatively smooth construction of a 700-kilometre pipeline through 100 communities with many language groups is attributed to the foundation laid among company and local actors. A culturally appropriate process engaged in social mapping and landowner identification as well as extensive public consultation in order to deal with concerns. Posters consisting mostly of images explained drilling activities and environmental impacts while drama groups conveyed short messages on road safety. These activities took place before drilling for pipeline construction began and throughout the process. Some of the company representatives also came from different ethnic groups and were keen to involve the communities in the process. All this contributed to a shift in thinking from power relations to cooperation. While such efforts to promote clear communication

and look at situations together may feel slow, the trust they create often pays off in faster implementation down the line.

**Risks are reduced when we are honest and transparent about them.**  
A proactive dialogue about risks is a key factor of long-lasting, peaceful relationships.

Some companies are becoming increasingly aware of the need to remedy the negative and unintended side effects of their activities. For example, an agro-based company faced many difficulties after starting its business operations in India: the local farmers began to complain about a shortage of irrigation water related to the use of water by the company.

Because of this the company changed its policy. Meetings were organised with the farmers as well as with government officials. Local people were trained to develop sustainable agriculture practices – such as planting trees in upper catchment areas – to protect water resources. The company also worked on water reduction and implemented joint programmes with government agencies to sustain the farmers' activities. The company found that rather than disadvantaging the company, acknowledging risks made them manageable.

*“You could learn a lot from a dialogue and cooperation with UN organs and NGOs. Unfortunately, such dialogue is very rare. Significant barriers to dialogue include suspicion by both sides, misunderstandings and impatience. Hence, so much expertise and experience from both sides is lost or left wanting.”*

– Senior Corporate Counsel specialising in complex environments

**Dialogue begins at a personal level.** As expressed by a manager working in Iran, “Be sure to respect the rules of respect. For example, it may be important to greet the oldest person in a group first, or the leader. It may be impossible to work with someone you have criticised in public. It may be important to do things as the general manager that you would rather delegate to others, simply to communicate respect. Respect leads to relationships leads to business.” It may be hard for people to believe that the company as an institution is interested in a positive relationship until its leadership demonstrates their own commitment.

Personal humility and openness to others' experience and knowledge opens the door to dialogue. In Bangladesh, an international dairy company has started a joint social business with a community development bank in order to contribute to meeting the nutritional needs of poor children in rural areas. This project is a learning process for the company: the multinational has had to adapt its products and distribution processes to the local context. The lessons learned are numerous. As one manager noted in another context, “If you imply to someone that you know better, and that you're there to tell them how do things, you are done – you have ruined everything. Respect their pride of history and of their civilisation. Respect their pride of success doing things their way. Rather ask, ‘Is there something we can build, together?’” The dairy company acknowledges that building on local capabilities is key.

## 5.2 Are we leaving anybody out of the conversation?

*For reasons of risk mitigation, operational continuity and sustainable development, all voices must be part of the discussion. These include direct stakeholders – such as workers, suppliers, and consumers – as well as other affected constituencies such as local communities, government, and other companies. In more extreme cases the company may even need to find ways to include interests of armed non-state actors. To enable people to engage in meaningful and productive engagement it may be necessary to build the mediation and negotiation abilities of all parties. It is also important to understand and adjust our approaches to others' ways of thinking and working.*

**Striving to include all voices takes work.** A starting point is stakeholder mapping that identifies different kinds of individuals and groups who are impacted more or less directly by the company's activities. The whole value chain as well as all natures of impact alert us to who may be affected by our actions or inactions. In addition to understanding the relationship of these constituencies to the company and the issues they prioritise, it is equally important to understand the balance of power and tensions among stakeholder groups themselves.

Many companies in light of such analysis discover that they have been concentrating their efforts on two highly visible groups. One consists of the most powerful players, whether government officials, business leaders, or key social and cultural figures. The other is groups from whom there is fear of disruption or violence. This leaves many voices across the spectrum out of the picture.

*“The company can't be tangled up in local politics. But neither can it try to be apart from them. The company must rather be seen to be helping the development of the country, irrespective of the party in power.”*

*Country Manager, telecommunications, Former Soviet Union*

**Some groups will likely not be heard from without affirmative effort.** In northern Colombia, for example, after many decades of marginalisation, indigenous peoples' groups have little organisation and few easily visible leaders. Community meetings

therefore often exclude them because it is not readily known whom to bring to the table. Yet companies risk losing credibility and cannot expect to receive support from constituencies whose voices and interests are ignored.

The quality of decisions is also impacted. In some ethnic groups in Africa women are traditionally not allowed to take part in decisions that concern the community. When companies work out arrangements to reduce harm or increase opportunities with affected communities only one woman can be present and she is not permitted to state her opinion. Half of the population is not represented. As women do all the farming in most of these communities, agricultural issues are not taken into account. What looks on the surface like consultation and engagement actually furthers exclusion.

**Stakeholder proliferation may be a warning sign.** One manager joked that he knew the company consultation process was working when after a surge of interest only a few people came to his meetings. At that point he knew people trusted that the company was acting fairly and that their interests were well-represented by others. Yet sometimes when it is time to decide who will be included in more formal processes to make plans and take decisions, more and more and more people clamber for a seat at the table. This may be a sign of a lack of true representation by those already there.

<b>State Administration</b>  <b>Ministry of Energy</b> <b>Ministry of Environment</b>  Supervise and regulate State issues; Witness MoU negotiations. Some State negotiations involve specific MoUs with oil companies.	<b>Kingdom of the Area</b>	
	<b>Royal Highness or Chief of the Community</b>  Chair the negotiation and implement the MoUs; Liaise with oil companies on behalf of the communities; Receive homage paid by the companies.	<b>Community Development Commission (CDC)</b>
	<b>Local Suppliers</b>	<b>Staff &amp; Unions</b>
		<b>Local Government</b>  Local administration; Community development; Witness MoU negotiations.
<b>Community-Based Stakeholders</b>  <b>Council of Chiefs</b> <b>Youth Associations</b>  <b>Students' Associations</b> <b>Women's Associations</b> <b>Craft Associations</b> <b>Landlords</b> <b>Individuals</b>	<b>Local Contractors and Subcontractors</b>	<b>MoU Implementation Committees</b>
	<b>Passive Stakeholders</b>  Environment; Ecosystems; Future generations	<b>NGOs and Foundations</b>  Local International

EXAMPLE OF PROLIFERATION OF INTEREST GROUPS

This example of oil companies' host communities in the Niger Delta of Nigeria shows an increasing number of interest groups who have been identified as deserving special representation vis-à-vis the company. The main reason for this is that the company had been paying homage to traditional rulers. These elites were seen by others as having misused their authority and having hijacked the agreements between companies and communities for their personal benefit. They were no longer trustworthy representatives of the communities. What the company was experiencing was not a positive gathering of people and ideas, but their own contribution to growing rivalries and conflicts.

**Companies may have to cope with armed non-state actors and illegal groups.** Many armed groups or political organisations banned by an authoritarian government have strong links to local communities or other groups affected by company investment. They may be popular voices for long-term historical grievances in the host society. Because many armed opposition groups are militias who may fight at times and blend into the community at others, the company may in practice be in contact with its members. Yet they cannot be treated like other groups. Transparent contractual relationships with gangs or armed groups are impossible, for example; any material support or financing of armed groups is morally problematic and typically criminalised by home and host governments.

The stakes are high where relationships with armed non-state actors must be considered. Developing constructive approaches requires wise counsel as well as competent analysis of the motivations and agendas of the armed group, in particular its social grievances. Dialogue on the topics of greatest concern to armed groups – even if not with the groups directly – can become a business necessity. Robust analysis may identify opportunities for companies to work with communities, governments and partner organisations in ways that help address grievances and injustices that fuel or underpin conflict.

*“Overwhelmed governments may be reluctant to ask for help from outside. At the same time, civil society may be thin or not yet in a space to set agendas rather than being a reactive voice. A key role of the company is therefore to support sense-making, often by taking on inclusive dialogue as a mission. This is good for society, but more to the point, helps the company get things done.”*

– Government Relations Manager, extractives industry, Africa

**Capacity building may be called for.** Tough challenges require good processes that generate good answers. This may require the company to help strengthen the communication and negotiation abilities of all. At first this may appear counter-intuitive to company staff. They may fear that more knowledge for others may create more trouble,

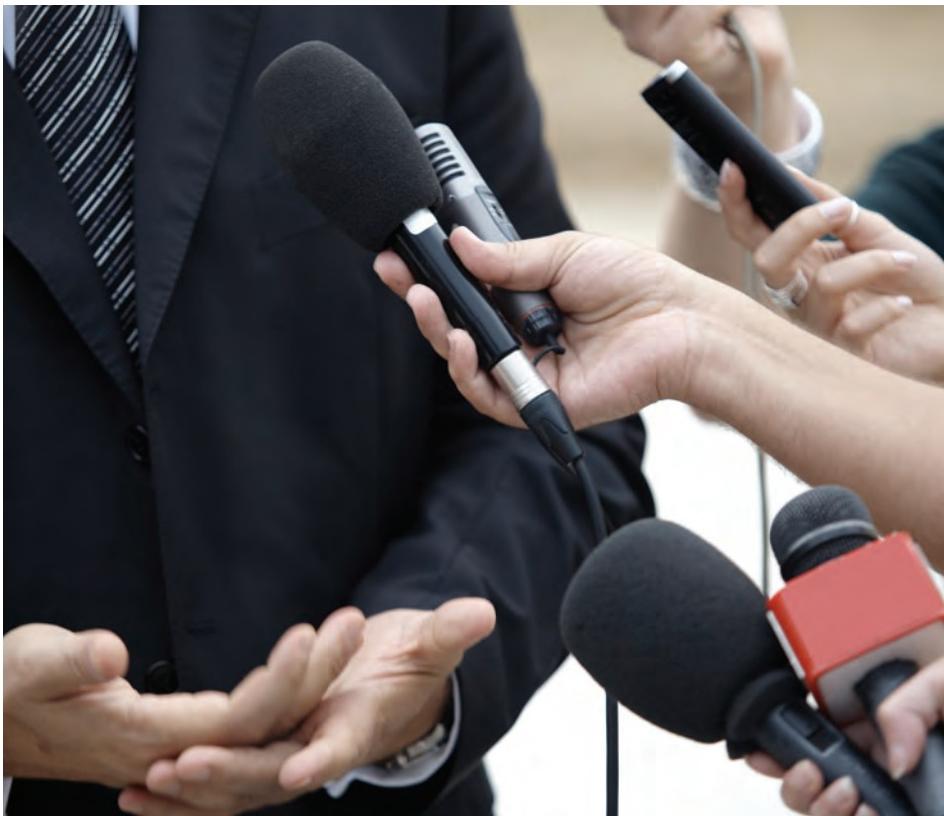
and that greater skill may enable more determined defence of their rights in arguments against the company. Experience suggests otherwise. Particularly when capacity building is conducted together, it tends to create a common dynamic in support of dialogue. People who hear the same message from the same credible source at the same time are more likely to believe it.

One organisation in Burundi arranged for a five-day retreat in that sensitive context. Several representatives of the company and main stakeholder groups gathered together with a number of people who had been designated as wise and independent by local people. The workshop was run by an independent third party. Over the first three days people on both sides learned negotiation and mediation tools. No issues related specifically to company-community relations were discussed. Only during the last two days were some of these issues put on the table. Because a climate of trust had been created, people were able to conduct constructive discussions and plan steps forward.

***Hearing all voices requires respect for how people think and relate.*** People in different cultures – be they corporate or national – approach dialogue and deliberation differently. In France there may often be strong reluctance to compromise; we are meant to be working towards a solution that is the objectively rational and efficient one. Dutch and Nigerian cultures tend to believe that the solution around which there is greatest consensus is the best one. Norms and standards concerning participation, how we relate to authority, or how we should reach decisions may vary significantly across cultures. If we are not attentive, we may not know whether we have reached an impasse or face resistance because of a failure to address an underlying interest, or whether we have simply approached dialogue around that interest in an inappropriate manner.

The path of least resistance may be when the company adapts its behaviour to local conditions. If consensus-based decisions are expected then company agents can learn better consensus-building skills and processes.

Complete adaptation may sometimes not be possible or desirable, for example, when the company needs to hear from all voices to reach an ethical and implementable decision in a culture where typically only one powerful figure will speak for others. Here the company may need to treat this dynamic as its own negotiation: sharing its constraints, interests and practical experience and reaching agreement on an approach to inclusion that both respects local expectations and meets company needs.



## COMPANY TO COMPANY

## What do we do when disaster strikes?

### Cadbury in India

*Cadbury India was a staid and stable company whose name was synonymous with chocolate. Reports of worm infestation took the leadership team by surprise and threatened the foundations of the company. It learned it was vulnerable to many forces outside its control, requiring proactive engagement with a broad range of stakeholders.*

Cadbury India (“Cadbury”) began operations in 1948. In 2003 it was the only multinational identified as one of India’s Best Managed Companies, ranked among the Best Workplaces in India, and was among India’s fastest growing companies. It commanded a 70% share in the Indian chocolate market, with 30 million bars of Cadbury Dairy Milk chocolate bought every month. Plans were for it to become a major sourcing hub for Cadbury Schweppes and a supplier of chocolates to the entire Asia-Pacific region. Cadbury’s name was synonymous with chocolate and its strong relationship with customers seemed unshakeable.

In October 2003 Cadbury's chocolate sales were expected to peak over Diwali, India's approaching festival of lights. Fresh stocks of chocolate bars were being shipped to 650,000 outlets across all of India. Then a CNBC correspondent called Cadbury headquarters asking for a statement. The Maharashtra Food and Drug Administration (FDA) had announced to the media that based on consumer complaints of worm infestation it had seized Cadbury Dairy Milk chocolate stocks for sampling and was investigating the company. The news was flashed on mobile phone networks and soon spread across the media.

Media, consumer and political reaction built off an incident only two months earlier. An independent consumer organisation had reported dangerously high levels of pesticides in PepsiCo and Coca-Cola soft drinks, which the companies at first attempted to deny. In an environment where Indian consumers were already receptive to allegations of foul play by large corporate players, it was not hard to believe that multinational corporations had different standards for emerging markets and that impure water was harming people. Sales of soft drinks plummeted and the incident made Indian consumers ever more vigilant with their purchases.

The FDA initially froze stocks at the Cadbury factory and one depot pending laboratory analysis. When reports came in, the FDA Minister visited Cadbury's factory and announced to the media, "The hygienic conditions in the factory are more than satisfactory; it is impossible for infestation to occur during the manufacturing process." This was unsurprising to Cadbury, which knew that worm infestation – in any case unpleasant rather than dangerous – must be the result of improper handling and not its state-of-the art processing. The crisis seemed to be over.

But the FDA appeared to be swayed by politics. When fresh cases of infestation were reported from the city of Nagpur in Maharashtra, the FDA Commissioner for the first time alleged that Cadbury was trying to pressure him. The next day the FDA Minister changed his position, saying that it was not enough for hygiene to be observed during manufacturing and that Cadbury should accept responsibility for the storage of its products at the retail level as well. Because of India's climate, chocolates are typically kept by retailers in metal dispensers and coolers. Up until then, the understanding for chocolates was the same as for other perishable food products: the manufacturer delivered food safely to the retailer, and the retailer was responsible for safe handling and storage until purchase. But now the Minister was suggesting that Cadbury was irresponsible.

Disaster had struck. In less than a week, sales volumes fell by 30% in the peak festival season. Market research conducted among 200 consumers in seven cities showed that 69% of consumers did not want their children to buy Cadbury chocolates, and 58% would not buy it for them. Politicians quickly capitalised on Cadbury's vulnerability. On 16 October, local members of a political party descended on the company headquarters to throw ink on the walls, appealing to the media whom they had invited and their consumer constituencies. They screamed slogans against multinational corporations, Cadbury, and America. (All multinational corporations are sometimes equated with the US in India.) Cadbury's business and reputation were at stake, as were internal employee morale and its relationship with the FDA.

The Cadbury India leadership team was taken by surprise. Until October 2003, Cadbury was a low-profile company. Even as the crisis broke nobody thought that it would become big enough to threaten the foundations of the company. It was confident in its food safety practices, and had never faced a media-fed crisis in consumer confidence. The team rallied and laid down three guiding principles that would direct the company's actions when tackling the crisis: (1) Consumer first; (2) Truth always, and (3) Dare greatly, act quickly.

Cadbury first moved to strengthen Cadbury Dairy Milk's packaging. It would not argue law with the regulator or fairness with the consumer over treatment of its chocolates different from

other food products. Changes would simply reduce dependency on proper storage conditions as much as possible. Cadbury introduced “purity-sealed” packaging: an inner layer of foil with an outer metallic “flow wrap” for small packs of chocolate, and a reinforced heat-sealed polyfoil with an outer “band wrap” for the large packs. A purity-sealed logo was created and displayed on all wrappers and advertisements. The new purity-sealed packaging was launched in January 2004 and involved an initial investment of GBP 1.5 million. Furthermore, the new production process was implemented in an unprecedented eight weeks instead of the usual six months.



Cadbury's second response was the implementation of the Project Vishwas (“Project Trust”) campaign to win back the confidence of the consumer. Its centrepiece was the engagement at significant cost of legendary Indian film star Amitabh Bachchan as brand ambassador. He was found in a consumer study to be (along with Indian Prime Minister Atal Bihari Vajpayee) one of the two most credible people in India. In a first television advertisement he spoke straight into the camera and described how he visited the Cadbury factory to first convince himself of the quality of Cadbury chocolates before agreeing to become a spokesperson. He then described the actions Cadbury had taken to introduce new packaging. In a second advertisement he plays with his granddaughter. She is wary of eating the chocolate he offers her, stating she has heard there is “something in it.” Bachchan assures her of the safety of the product. Both advertisements dealt with infestation fears directly and honestly. They were part of a comprehensive media outreach campaign that presented facts about Cadbury's manufacturing and storage facilities and highlighted corrective steps being taken by the company.

Cadbury's third major response included the implementation of a retail monitoring and education programme to address storage problems. Distributors and shopkeepers were supported with posters and leaflets to help improve their storage conditions as well as share Cadbury's point of view with their customers. Cadbury also distributed more metal dispensers and coolers to its retailers. A response unit with a toll-free number and e-mail address was put in place to give shopkeepers a means to directly contact the company with any issues they faced. These actions helped reinforce the company's commitment to quality and reaffirm retailers' confidence and proper storage practices.

Finally, even as Cadbury was in the throes of the crisis, the company believed it was necessary to assure its consumers, retailers and employees that it was business as usual at Cadbury. Cadbury increased its spending on all other chocolate brands, even re-launching a chocolate product. It addressed potential doubts among its own employees. Measures included giving sales representatives an allowance to go into local shops, buy chocolates and see if any bars were infested. They were thus able to see for themselves that there was nothing wrong with their product and that Cadbury had nothing to hide.

These actions in the aggregate had the desired effect. Twenty-four weeks after the crisis, there was significant upward movement in consumer ratings against parameters of company image, responsiveness of the company, and intention to buy Cadbury chocolates. 86% of consumers surveyed found Cadbury had taken appropriate steps. By June 2004, intention to consume and gift Cadbury had returned to pre-incident levels. The leading business magazine that had initially described the incident as “an unedifying instance” of “pointing a finger … at the retail level” later lauded the company’s efforts. Consumer confidence in the brand was back and Cadbury had recovered its reputation.

One positive lesson for Cadbury was the value of a committed and empowered local leadership team. Decision-making was kept centred in India, and the Mumbai team only brought in individuals outside India as needed for specific expertise or as sounding boards. Local team members were regarded as the best judges of what should happen. Their decisions were supported by company headquarters even when these involved significant capital and operating expenditures.

But even local leadership needed to learn that companies in less structured and more chaotic emerging markets are vulnerable to many forces outside their control such as natural disasters, political events, or breakdowns in the supply chain. Perceptions of a company – even one as staid and stable as Cadbury – are determined not only by its own actions, but by the acts and omissions of many other players. Prior to the crisis, Cadbury management thought that if the company was doing everything right in its manufacturing process, it didn’t need to communicate proactively beyond its marketing channels. In light of its experience, Cadbury significantly increased its engagement with government agencies, retailers, and the media.

Cadbury’s team believes that lessons learned and changes made during the crisis will benefit the company in the long run. According to Cadbury India’s Managing Director, “I always tell the team: it’s not about falling down, it’s about how you get up. Either we can fall down and blame the rest of the world, or we can say: everyone falls down, and we’ll get up and show people that we can run even faster now.”

ADAPTED FROM A FLETCHER SCHOOL CENTER FOR EMERGING MARKET ENTERPRISES REFLECTION FROM PRACTICE BY BHARAT PURI OF KRAFT FOODS WITH SARAH E. CLARK OF THE FLETCHER SCHOOL.

## 5.3 Are we supporting solutions to broader challenges?

*Building and improving relationships with those around us requires us as outsiders in a complex environment to demonstrate how we are contributing to improved quality of life and economic development. This task cuts across all functions of the company. Initiatives integrated with our core activities will be more impactful than stand-alone social investments or charitable giving. Our engagement on behalf of less tangible improvements to society such as inclusive dialogue can be as important as more concrete ones.*

### ***The company is judged by how it broadly addresses social challenges.***

The company will be more or less welcome in society to the extent that it is seen to pay a fair share of taxes and share benefits from the company's use of local resources and labour with the country. Its local commitment will be measured according to working and living conditions of employees, how the company manages its direct and indirect impacts on the environment and social fabric, and how well it integrates local businesses into its value chain. People and institutions will be attentive to whether company actions foster or undermine good governance and protect human rights.

The implications for the company are twofold. The first is that stakeholder relations cannot be relegated to community relations or government affairs functions. These can be important sources of intelligence and insight within the company or entry points for external actors. They may act as brokers of conversations among internal and external constituencies. But it is operational functions within the company that must address challenges, solve problems, and thus build strong relationships.

The second is that each function must learn to think the implications of its policies and actions through to their ultimate impact. The finance department may be tempted to trumpet the large dollar amount paid in taxes to the country. But if those revenues are not seen to be fairly shared among national, regional and local constituencies the payments are likely to feed social tensions and ultimately resentment against the company. In the complex environment social, political and economic relationships are embedded in every function of the company.

***We are most relevant to social challenges when we build from our business.*** The attempt to isolate operational functions from complex dynamics and difficult relationships often leads to a focus on philanthropy. Charitable giving, however, has little fundamental positive impact on the company's relationship to society. Well outside a company's core competencies to manage it is hard to achieve impact or connect to important ongoing initiatives. It may have marginal or even negative impact if it undermines local capacity for development or organic solutions. It becomes at best a form of voluntary taxation and at worse undermines governmental responsibility or legitimacy.

These challenges are mitigated when the company uses ongoing operations as its levers for helping to build a common future. Tetra Laval (case story, page 158) expanded access

to its animal husbandry expertise by training local trainers. Knowledge and skill that had belonged to the company helped create a future for vulnerable populations in Bangladesh. Atlas Copco (page 198) found ways of simultaneously advancing social and business needs to help redress past discrimination in South Africa. The lesson is not that such initiatives replace social contributions. Substantial management and financial resources may be required to make them work. Rather, such initiatives help ensure a sustainable connection between the business investments and real needs and opportunities.

Such shared value approaches may also reduce suspicions that the company is simply engaged in a public relations campaign or diverting attention from its core operations. When the company includes transparent self-interest as one of its motivations it may build trust – “we are happy to be supporting technical education in our field and look forward to hiring qualified candidates as our business expands.” Its assertions that it is interested in social planning and investment for the long term may be more credible if the company appears to be planning for its own sustainable future – “we along with many worry about the long-term availability and fair distribution of water resources and so are investing in finding solutions.” The company reinforces its role as “part of” rather than “operating in” the society.

*“While the standard advice to ‘stay out of partisan politics’ should be heeded, this cannot be heard to mean to stay away from issues of public importance. On issues from sanitation to ethnic inclusion, advice and ideas are appreciated. They show that the company is bringing value: not only technical know-how, but commitment to help find solutions to the country’s challenges.”*

– Senior Government Official, Africa

**We do better when we work with others.** One company in Indonesia decided to engage with NGOs on behalf of the waste-pickers who collect the plastic produced by its subsidiary in Indonesia. This helps the company secure the quality of inputs it needs for its recycled bottles. At the same time it strives to improve the living and working conditions of waste-pickers and to address its environmental responsibility. Salient to the approach they chose, however, is that around 1% of the Indonesian population is involved in informal recycling activities. The company cannot be the main or direct leader of an initiative to improve the socio-economic status and future prospects for this population. Even social investments that have a close business nexus may best be managed as part of broader initiatives. In this case, cooperation with the government is also needed in order to deal with the waste value chain, and to scale up such projects.

Part of the learning for Scania in Colombia (case story, page 86) was that they were very good at some things – like training on truck maintenance and mentoring relationships – and

not so good at others, like psycho-social support or job placement for students they trained but did not hire directly. This led to a shift in approach to supporting a multi-stakeholder initiative that can see students through from identification of vulnerable populations to post-employment tracking and support. Such initiatives foster social cohesion and local development because they integrate a common vision of a goal to achieve while allowing a distinctive role for each involved stakeholder.

*“It is not enough to provide jobs and pay taxes. If you do not want to be seen as a short-term or opportunistic player, you must be a partner in building the nation.”*

– Country Manager, industrial goods & services, Asia

**Company dialogue about the challenges it faces can help shape more inclusive dialogue across society.** The company opening a new factory or whose investments may create a new export-driven agricultural segment for the country finds itself speaking with actors across government, civil society and local communities. It may find that they are not speaking with each other.

Conversations about investment and development often take place in the context of disputes among various government ministries and branches or levels of government, or among government, traditional authorities and civil society actors. Conversations about the company and investment implicate the distribution of power and authority within government and across society at large. People may act out of fear: of losing what they have or of being excluded from benefits. Mistrust leads parties to speak mostly with like-minded actors, keeping diverse and divergent voices from reaching decision-makers. Fear and mistrust undermine dialogue, consensus building, and alignment for action.

The company may play a role in bringing parties together legitimised by its own operational interests. Such conversations can build recognition among all role players that they face risks to their common and distinctive agendas from conflict, and that advancing their interests might better be done together. To the extent that conflicting perceptions or information fuel tensions, information sharing and joint learning can be useful tools. Company conversations about the issues on which it must in any case engage support more inclusive and productive social dialogue.

## 5.4 Are we willing to help others take ownership – and even be in charge?

*A typical company activity in a complex environment is to assess needs. We note gaps in infrastructure, health and education delivery, nutrition or safety and may prioritise these in consultation with stakeholders. If we attempt to fill these needs directly we face challenges of ownership and sustainability. If we attempt simply to pay our taxes and trust the political process to work we risk resentment and rising tensions around us. We may find a middle ground in company-supported collaborative processes. Making these work requires us to relinquish more control over decision-making and implementation than we are used to. The benefits are many, however, both for the company and for society.*

**Filling gaps is problematic.** One company producing consumer goods sponsored public water taps in three communities. Evaluations later found that in two of the three places the taps were not well maintained and there was a significant waste of water. In the third community the tap was no longer working and women were going back to the ancestral well. When asked why they were not maintaining their taps, they answered that it was the company's duty and not theirs. With no joint planning or agreement for maintenance, community members felt little ownership of or responsibility for the project.

Questions of sustainability also quickly come into play. One oil company provided free electricity to their neighbouring communities. This, of course, contributes to the improvement of living conditions for local people in meaningful ways. Yet evaluations found wasted electricity; lights were on in the communities even when the sun was shining. Overuse by people taking advantage of free electricity provoked an overload of the turbines. Additionally, no foundation had been laid for revenues, technical capabilities or management for the electrical infrastructure once the oil-producing sites wound down within the next decades.

Companies may hope with their provision of goods and services to reduce risks from unhappy constituencies and to increase the social welfare of people in genuine need. The more frequent result is rising expectations of what the company will provide; increased nepotism and corruption as actors scramble to capture benefits; and increased frustrations and rivalries between benefit recipients and the rest of the population.

**Denying any role is equally untenable.** Some companies argue that such scenarios justify standing on the sidelines of debates over social needs. They take the perspective that they should pay their taxes and leave it to political processes to prioritise investments and to government agencies to implement them. They suggest that markets can solve problems and that their efforts would likely simply crowd out local efforts. They note – sometimes ironically and sometimes more seriously – that only a few decades ago the dominant cry was

for companies to remove themselves from politics and distance themselves from government roles.

Such positions are perhaps principled but are typically unlikely to be effective in complex environments. Where governments are unwilling or unable to attend to social needs, the company that is achieving its technical and financial goals while others are unable to realise their aspirations is in an untenable position. Mining companies in South Africa, for example, are five of the ten largest taxpayers in the country. Their workers earn well above median national wages and higher wages than miners in other developing countries such as India and China. Yet companies face persistent and increasingly violent protests over the living conditions of workers and the poor future prospects for their children. When social investment is neglected, resentments grow and tensions rise.

*“The marriage of NGO and business thinking is difficult but fruitful. The NGO will typically stay focused on root causes and long-term impact. The business will make sure that the results are sufficient to meet market needs, ensuring sustainability. What is required is a willingness to co-create; a learning model where both say, let’s go down this road and see where it leads.”*

– Country Manager, agribusiness, Middle East & North Africa

**Multi-stakeholder decisions may provide a middle ground.** From 2007, one of the leading tea-producing companies in Kenya supported a process that involved the workers in its plantations as well as local smallholders and government officials through the Kenyan Tea Development Agency. The aim was to implement specific management and agricultural practices – in large corporate estates as well as in small farms – to enable their certification by the non-profit organisation Rainforest Alliance. Through this kind of multi-stakeholder approach, a change of mindset and practices is at stake. For the tea sector, the challenge is to transform the entire industry by promoting sustainable practices, including increased yields through the use of organic fertilisers, improved workers’ welfare and better farm management.

For such processes to balance the tensions of doing too much with doing too little, the company must manage its role carefully. The company can neither replace government involvement, nor pretend that everything can happen by assisting government. It has to deal with decision-makers at different levels. In the tea industry case, the proactive role of the multinational goes hand in hand with the support to government in order to integrate the whole value chain. The company must be part of the process along with all other participants.

**Relinquishing control is difficult but necessary.** Such collaborative approaches differ fundamentally from many typical company engagement processes. Whether to discuss social investments or to manage the direct and indirect impacts of company operations, often a so-called “bottom-up approach” built around “grassroots participation” is still fundamentally company-driven as part of company decision-making systems. As one community member stated, “I participate, you participate, they decide.” To credibly transfer ownership and work in partnership the company must let others decide.

One implication of this participatory logic is sometimes difficult for companies to swallow. They must acknowledge that giving a voice to affected stakeholders does not guarantee that the business will proceed as the company had originally envisioned. By opening a space for assessment and discussion, the company takes a risk. We not only give people time and space for them to agree with us; we also recognise that they can disagree and that we may have to change our plans.

This may mean changes to social investment decisions or our approach to risk mitigation. On the margin it may lead to an indigenous community not granting permission for a project to go forward. But it is often not so dire. For example, an oil company about to start drilling operations in a Middle-Eastern country decided to displace the construction of a pipeline in order to preserve some sacred places. The company took time to discuss this not only with government officials, but also with community members, traditional elites and religious leaders. By doing so it ultimately built support for its project.

*“You must embrace a new form of governance where you work collaboratively to manage resources and issues that affect you and others, both in your and in the common interest.”*

– Stakeholder Relations Manager, agribusiness

**Respect for people and culture is a dynamic process.** Another implication of local control is respect for local culture and institutions. Partners’ ownership of joint initiatives is influenced by the extent to which we adapt to our host’s rules and behaviours. Yet we must combine our consideration for local values with our commitment to human rights. This can be tricky.

Following a Memorandum of Understanding with local communities, for example, one company in Nigeria is supposed to grant scholarships every year. The way in which the scholarships are granted is a matter of debate within both the company and the community. Some community members argue that boys should be the main beneficiaries of the scholarship scheme, while others claim that the children of certain families should have priority. Community members have boycotted the exam prepared by the company to select the most capable children.

Several lessons can be drawn from this case. Companies face failures when they impose rules without paying attention to cultural habits and representations. Yet culture is not

fixed; it is a dynamic and evolving conversation among different points of view and interest groups in society. If we accept culturally influenced practices at face value, we contribute to freezing the culture in ways that may not foster empowerment and human development.

The company in the example above, following the boycott of the exam, organised consultations and meetings with teachers, community elders and government officials in charge of education. They reached agreement concerning the advantages of selecting children for the scholarships through a transparent process. This dialogue enabled people to revisit and even to revise traditional debates and perspectives. The company can play such a modest but constructive role in shaping a conversation about culture.



#### LEADER TO LEADER

## How do we work with government?

Leaders interviewed noted that, when frustrated by government actions or inactions or by bureaucratic hurdles, it helps to remember that the government in a complex environment may have limited experience with foreign direct investment, with multinational corporations, or with harmonisation of its policies with those of others. Part of the manager's job, they say, is to find ways to help government successfully navigate in what may be for them a new and complex environment as well.

Particularly where a new market opens to large-scale development, governments can quickly become overwhelmed by an influx of investors and their promises. Yet having fought so hard for sovereignty or democratic legitimacy, they may be reluctant to ask for help from outside. Critical decisions, from tax policy to infrastructure development to resettlement of particular communities, may be taken on an ad hoc basis.

At the same time, civil society may still be thin and not yet in a space to set agendas rather than being a reactive voice. A key contribution of the company can therefore be to support broader perspectives and more sensible policies, often through taking on inclusive dialogue as a mission. This is good for society, but quite pragmatically, helps the company get things done.

There may also be a large gap between the government's genuine aspirations – for example, to diversify the economy or supply more value-added products and services – and officials' acceptance of the magnitude of the task. Governments will inevitably call on foreign companies to "do more" locally in order for the country to benefit from more profitable links in an industrial or extractives value chain.

If the company does not want to be perceived as greedy or obstructionist, its leader must become an educator. Governments, local suppliers and others need to learn about global standards, what is required in terms of policy, education, and investment in order to meet them, and the respective roles of government, companies and civil society in moving forward.

One senior government minister noted that business can also play a productive role helping to bring clarity to government planning. For how many thousands of megawatts of power will there be demand? This can of course only be answered in conjunction with questions of cost, and of broader physical and social infrastructure. But a compelling business voice on what it could and would do brings focus to the conversation. It also moves business from the position of complaining – "the energy infrastructure or policy environment is inadequate to support investment" – to one of reciprocal commitment – "if government can facilitate long-term energy availability, we will build a new processing plant here."

While many leaders noted that the advice to "stay out of partisan politics" should indeed be heeded, they emphasised that this cannot be heard to mean to stay away from issues of public importance. On issues from sanitation to ethnic inclusion, advice and ideas are appreciated, if not in the first instance by government officials, then by broader society. They also show that the company is bringing value: not only technical know-how, but commitment to help find solutions to the country's challenges. This appears particularly important where companies are historically perceived as tools of colonial exploitation.

Leaders describe both parties needing to come to terms with a new company-government relationship. In former communist countries in particular, the connection between the State and companies may remain strong even in those now seen as free-market economies. Authorities may assume it is their job to influence business, for example, to raise salaries or increase local production. This can give rise to tensions. But it also creates opportunities, because government leaders will take a greater interest in helping the company succeed. They will invite the company to participate in discussions about government policy and budgets. If the relationship is well-managed, leaders say, there is increased opportunity for real partnership.

For this to unfold, government stakeholders need to hear that the company understands its role in development. Of course the company pays its taxes. But it must also show a long-term commitment, for example, through how it trains people. Particularly in a sector considered strategic for a country there must be an intent to become a "local" company. Management must find opportunities to proactively reach out and provide solutions as a good corporate citizen. In the end, the only way to get the company and its needs onto the government's agenda is to talk about the government's agenda. If all company leaders talk about is what the company wants, nothing will move forward. The smaller the company or the more it is perceived to serve only an elite market, the harder it has to work to show its social contribution.

Managers note that suspicion of foreign companies is natural. The company may sell expensive machinery in a country with a balance of payments problem and foreign reserves constraints. The story of how the company's products help open foreign markets to local companies must be straightforward and clear for it to be understood and accepted by government. One

needs to appreciate rather than get upset with suspicion of the foreign company. Company representatives may be certain that their twice-as-expensive product has a five-times longer lifespan, but government officials live with the consequences of bad decisions. The company needs to position itself on the government's team: "This country can do better."

When a regime is unpopular, the company will receive pressure from both sides. Opponents may not want the company to help the current government succeed, even in delivering needed services. The government in turn may suspect that the company is more sympathetic to their opponents than to them. Meanwhile, short lines of command from state-owned companies into ministries mean that politics are always in play. So the company can only have one answer, and it has to be true: "We are here for the good of the country, and its people."

Leaders emphasise that this first and foremost requires keeping promises. Whereas company lawyers may point to formal agreements and say that nothing has been promised, society will hold the company accountable for all the hope it has created. A mining company may argue that changes in global prices mean a railroad and a port no longer make sense; but the government will say, "We tied our development plan to all the things you talked about when you wanted our cooperation." The company must understand that a promise is what they understood to be the company's commitment, not what the company lawyers say it is. In a long-term relationship, success is about understanding symbioses. Only if all succeed does the company succeed.

## 5.5 Are we good allies and partners for the future?

*We build strong, trusting and resilient relationships with our partners in a complex environment when they see us as their allies locally, nationally and internationally. Congruence across conversations at these different levels as they relate to our commitment proves essential. We prove ourselves to be responsible companies when we help shape global conversations, benchmark ourselves against global practice and seek mutual meaning regarding national and international expectations in the local context. Our own sustainability is tied to the extent to which we can be good advocates for future generations who may not have an adequate voice in conversations.*

### THE MESSAGE

**We build confidence when we take a long view.** Particularly when countries are emerging from conflict or attempting to overcome difficult economic conditions, the local focus across government, the business community and the broader population may be on pressing needs. Government revenues, jobs and infrastructure development are often at the top of the list. The immediate goal may be to find someone to start what is hoped to become a cascade of new investments.

In such cases the temptation for a company may be to treat the situation as an opportunity to benefit from an advantageous bargaining position. One oil company funded climate change denial groups and lobbied against environmental regulations such as the banning of gas flaring or the control of underground hydraulic fracturing fluids. It found that hard bargaining and heavy money could secure certain short-term advantages. In other cases companies may fail to raise long-term issues if government or other stakeholders do not spontaneously do so, even though they know from experience that these will be important in the future. In the extractives industry where an oil field or mine will eventually wind down, for example, there may be insufficient local focus on accountabilities that need to be clarified around site closures perhaps decades in the future. The company can thereby hope to minimise or avoid what in other places would be its normal responsibilities.

In the context of a long-term relationship, such thinking and action will predictably cause future problems. As one corporate counsel stated, “*We want to be sure that the agreement is fair. Ten years is plenty of time for them to figure out how to get back at us if it’s not.*” The recent wave of resource nationalism and license renegotiations may be a reflection of this truth. Short-term thinking has long-term impact. With short-term thinking we also give up the trust and confidence we can build when we of our own accord protect our partners’ interests by putting issues on the table. We can then also play a more influential role in shaping solutions.

**We build trust when our actions are congruent.** In the past, companies were used to implementing double standards with regard to social and environmental practices

in rich and developing countries. This can lead to tragedies, such as the gas leak at the Union Carbide pesticide plant in Bhopal in 1984, wherein poor maintenance and a lack of safety systems led to the deaths of more than 16,000 people.

In a global and connected world, what we say in one forum will quickly be heard all over. Union Carbide could not credibly claim concern for the victims of Bhopal in India while at the same time denying any role in the tragedy in its corporate and legal communications. Companies undermine their intended message of concern, dependability and accountability locally when they downplay or deny responsibility elsewhere.

Companies that, in contrast, act according to the same values in the host country as abroad build trust, particularly with those who may not feel that anyone else stands up for them. A company may be involved in a transparency or business and human rights forum internationally, and work to implement it locally. Companies can identify and reinforce people in government who are ready to support good governance initiatives or support forums on such issues. Companies can also engage collectively to influence government regarding issues of legitimate business concern, such as greater central commitment at a local level. Echoing international leadership with local action on the same issues creates trust that we mean what we say and can be counted on to follow through.

*“Anything said anywhere will be immediately heard and have consequences everywhere. This requires alignment across operations based on common values.”*

– Corporate Communications Manager, industrial goods & services

**We build alliances when we share sustainable practices.** The company's business case may be built around its competitive advantage in the local market. Even if it has a less advantageous cost structure, it thrives because it makes available technologies and services that cannot be locally duplicated. Such higher-technology companies often work in the business-to-business or business-to-government sectors: machine tool and production technologies, back-end information technology services, infrastructure, sophisticated logistics operations, and the like.

This market position and broad access to other businesses and government agencies lets the company consider which parts of its technology, process knowledge and systems understanding can be freely shared without risk to its competitive concerns. Companies do not, for example, typically compete on health, safety or environmental performance. This creates opportunities for constructive leadership.

One banana company acknowledged its past paternalistic and nepotistic behaviour in Central American countries. It decided to collaborate with activists in order to improve soil and water quality as well as working conditions, and to ensure rainforest conservation. Thus it has contributed to the transformation of a large segment of the banana industry.

Companies can also share less technical yet all the same more sustainable practices. Sandvik (case story, page 50) took its lessons learned both negative and positive about managing

HIV/AIDS and promoting employee well-being into its supply chain. Electrolux (case story, page 122) partnered with its home country union to improve labour-management relations in Poland. The companies proved themselves to be good allies to their partners even as they made meaningful contributions to development and sustainable business practice.

**We help create resilience when we support new ways of partnering.**

Stakeholder engagement entails not only consultation and dialogue, but also partnerships that allow the parties to approach confounding problems in new ways.

In the apparel and footwear industries, for example, companies deal with many subcontractors. Most of the time, they are looking for the lowest manufacturing costs and do not directly control whether or not these contractors respect decent working and living conditions and safety measures within their plants. Apparel retailers have often claimed that they are not responsible for their contractors. However, the recent tragedy of Savar in Bangladesh, where 1,200 garment-industry workers died, has led to a radical change in perspective concerning the supply chain. In May 2013, 30 garment and retail brands sourcing from Bangladesh signed a fire-and-building safety agreement that was framed by union and non-governmental groups.

Such partnerships – based on the recognition that deadlocks are in no one's interest – contribute to building trust. They allow innovative decisions to be made concerning sensitive issues. They are mutually beneficial for the parties involved.

*“Of course you pay your taxes. But you must also show a long-term commitment, for example, through how you train people. Government needs to see that you understand your responsibilities to contribute to society and a better future.”*

– Country Manager, telecommunications, Asia

**The company can help develop voices on behalf of future generations.** The voices of the environment and of future generations are not easily heard when companies and local communities are overwhelmed by short-term concerns. Businesses must all the same help to envision the future of a community in relation to the future of our planet.

One cement multinational has developed new economic and business models that help answer NGO and civil society organisation challenges about their net positive impact on society. It is developing a methodology to assess its impact on society from a threefold perspective: contribution to the community, sustainable habitat and “circular economy,” which involves creating symbiotic relationships among multiple industries so waste from one company can be used as fuels or raw materials for another, thus preserving natural resources. The company measures the ecological as well as the carbon footprint of the company. It monitors decisions to minimise and address potentially destructive impacts, for example, rehabilitating quarries to restore and create new habitats and assuring that there is a sustainable water plan within the watersheds in which companies have operations.

This kind of initiative can nurture rich conversations within society concerning which trade-offs to accept or refuse in order to preserve biological diversity and the living conditions of future generations.

## 5.6 Are we modelling ethical leadership?

*Working well with others requires us as individual leaders and as an organisational whole to reflect on whether and how we are putting our values into action. Particularly in a complex environment where prevailing norms and practices provide fewer handrails, ethical questioning plays a critical role. It begins with the individual but requires a collective process. It is highly practical, leading to changes in action. It is a powerful tool for bridging divides. It is perhaps a necessary condition for sustainable relations with people and society around us.*

**Ethics is asking questions.** Even a willing company with good intentions and significant efforts expended can fall into a pattern of unquestioned attitudes, beliefs, perceptions and actions. It states that it has best-in-class policies and procedures. It calculates and communicates the value it brings to society. It creates a particular model for partnership. It may act on certain understandings about what roles it cannot take on and what cannot be changed. Such beliefs are not necessarily unfounded. From an ethical perspective the deficiency is that the thought processes behind them have become rote.

Ethics is the process by which we ask questions about typically unchallenged statements and practices. We consider afresh what it means to meet our responsibilities and whether we are doing so. We ask to what extent we are and are not satisfied with company social policies. We explicitly describe the implicit rules of the game in the business environment, who benefits and who loses from them, and how we feel about those outcomes. We ask to what extent we really know whether we are fostering local development or accounting for the unintended side effects of our activity. The fundamental notion of sustainable development and its underpinning principles – inter- and intra-generational solidarity, responsibility, participation and fairness – can provide many more such questions.

**Ethics begins with the individual.** The ethical quality of the leader is closely related to empathy. Ethics is not only a matter of rational norms contributing to fair distribution of economic value and goods. As one leader noted, “*You must love what you are doing. If you are not genuinely interested in the country, its people, and its politics, people will see it and feel it.*” Ethics is a matter of emotions, passion and care for others.

It is true that integrity and values are at least partially conditioned by the collective principles endorsed by the organisation. But so is the converse: individual action contributes to shaping the corporate ethos. It is particularly important that we do so in a complex market. Our own actions have much more impact on whether we reinforce unfair and grey

behaviours and practices, or contribute to shaping rules and policies in a positive way. As noted one manager, “*If one works in Canada or in Sweden, society provides an ethical way of doing business. In the complex market, one must be absolutely clear about one’s own values and ethics. One has to get one’s own head on straight first. Otherwise, the context will shape who one is and how one does business.*”

**Ethics is a collective or institutional process.** An ethical process within company operations creates capacity to question the existing assumptions concerning stakeholder engagement, to recognise failures and to identify areas in need of improvement. It counteracts tendencies to become frustrated, blame, or consider problems beyond our capacity to influence. It can contribute to shaping new business organisations and relations.

One company that decided to set up policies regarding sustainable development proceeded in two stages. The first stage consisted of defining two sets of values: operational ones – in this specific case, innovation, passion for the work, entrepreneurial spirit – and ethical ones – respect, trust and solidarity. The second stage consisted of looking at the different spheres of responsibility of the firm – economic and financial, social, environmental and political – and seeing concretely what ethical challenges were at stake and whether its operational values were being applied. Top managers highlighted issues related to corruption, which undermined the level of trust the company wanted to foster, but that were not being addressed to the extent the company’s ethical values called for.

Similarly, Atlas Copco (case story, page 198) tells the world that it “strives to be a responsible corporate citizen in every market that it operates in by finding synergies between economic growth, environmental stewardship and socially responsible operations.” Through a process of introspection it questioned the extent to which it was applying one of its core operational principles – that “there is always a better way” – to its ethical commitments. This led to significant changes that improved both business and social performance of the company. But the company needed to risk undermining short term performance in order to respect ethical values and foster long term objectives.

**“**You must have clear values. You must live what you say, and be prepared to make decisions quickly under difficult circumstances. You can only do this if you work these out inside yourself before you start your work in the complex market. You must believe that there are clear lines and that you must act in a certain, ethical way.**”**

– Country Manager, engineering services, Middle East & North Africa

**Ethics is a powerful tool for bridging divides.** Ethics is not about giving good or bad marks. Rather, it is a process that helps us analyse situations from different points of view. It challenges our ready-made opinions and conformist attitudes. As such, it creates a space in which different perspectives can be discussed and a new and common vision adopted.

Many activists, for example, criticise industrial projects as a threat to the rights of indigenous people and to ecosystems. Power relations create distrust towards any societal commitments made by companies. An ethical enquiry helps to detail the different issues at stake and the precise underlying problems. It provides ethical criteria in order to assess the situation, such as consideration of the worse-off or the proportionality of negative side effects compared to positive ones arising from a project. It ensures that some communication rules are respected and that all arguments are listened to. Finally, it creates conditions for constructive and peaceful decisions. This kind of process may best be implemented by involving a trustworthy third party in the conversation.

*“ Sometimes taking sound and ethical business action is a calculated risk. You may be disrupting important personal and power networks. People may be tempted to act against you, to the point of threatening to deny you contracts or close you down. But your products and skills may be needed. You have to recognise the weaknesses but also the strengths of your position.”*

– Country Manager, telecommunications, Middle East & North Africa

**Ethics enable sustainable working relationships.** As one example where unquestioned assumptions undermine human relations, many multinational companies publically question whether the social responsibility for the well-being of their employees should be extended to contractors. These conversations often turn on a legalistic notion that the company is not responsible for its independent contractors' social policies.

Ethical inquiry broadens the conversation. It brings in competing norms and standards, such as the OECD principles calling for greater responsibility. It introduces non-congruent observations, such as the increased tensions and frustrations within subsidiaries where employees of the multinational and of the contractors work side by side but with different social benefits. Such inquiry challenges limiting and self-defeating perspectives.

The quality of interpersonal and collective relations – bonding and bridging – is one of the most important dimensions of social development. People who feel that there is a genuine corporate concern for their social needs will be more willing to cooperate and understand specific business needs.

Ethical leaders are therefore looking for personal as well as corporate consistency between words and deeds. To the extent they achieve it they are more credible and better able to gather different kinds of stakeholders in a proactive, positive way. They inspire positive changes by linking deep personal and collective convictions and flexible strategies to make the most of difficult situations. Cultivating humanity turns out to be perhaps the best way for leaders to ensure sustainable business relations.



#### COMPANY TO COMPANY

## How do we prepare for the unforeseen?

### The Brazilian sporting goods association

In July 2011, the Federal Revenue Department of Brazil, through its Department of Customs Administration (COANA), decided that all footwear products in Brazilian ports should be directed to the “grey channel” of customs clearance for investigation. The government suspected some companies of inappropriate transhipment. Companies commonly use shipment through third countries to achieve logistical benefits, but the practice can also be used to illegitimately disguise the origin of goods with the intent of avoiding customs duties.

Footwear companies realised that, in light of this decision, their incoming products could be retained by the government for more than six months pending investigation. This threatened to paralyse their retail footwear sales in Brazil. The import slowdown coming in the lead-up to Father’s Day, an important sales period for the industry, added to its urgency.

Eight companies representing 12 sports brands had formed MOVE, the Brazilian Sporting Goods Association, in 2010 for the purpose of advocacy for the industry. In light of the crisis, its members flew directly to the national capital Brasilia. They spent several days in the waiting room of COANA. They explained who they were and what they were there for, hoping for an

appointment with the authorities. Officials eventually agreed to a series of meetings. Over the following three weeks the companies prepared large amounts of documentation about their imported footwear, establishing to COANA's satisfaction that there was no fraud among the members of MOVE. The products were cleared from the customs grey channel and moved into the Brazilian market in time for Father's Day.

MOVE was on reflection able to point to two factors in their successful intervention with Brazilian authorities. First, the coalition had been formed before there was a crisis. Clearly it had made an impression that representatives of 12 recognised brands acted immediately and with the same voice. Second, while it was surprised by the directive to divert all footwear imports for secondary inspection and clearance, MOVE was well aware of COANA's concern with potential abuse of certificates of origin. When the government demanded documentation about the origin of products, the companies were already able to mobilise supply chains and operations departments around the world to obtain large amounts of evidentiary information in record time. This speeded the process and added to the credibility of MOVE members with COANA.

MOVE's shortcoming, on reflection, was that it had not yet built strong relationships with government officials. Flying directly to the capital to demonstrate urgency and build personal rapport was helpful. But had the companies not needed to introduce themselves and their concerns over weeks of meetings, their job would have been much easier. Indeed, the change in regulations might not have come as a surprise at all. As footwear imports remain a prominent political and fiscal issue in Brazil, MOVE is taking its lessons from the "unforeseen" events of July 2011 to position itself for more proactive engagement.

ADAPTED FROM A FLETCHER SCHOOL CENTER FOR EMERGING MARKET ENTERPRISES REFLECTION FROM PRACTICE BY GUILHERME ATHIA WITH KIRSTEN WALLERSTEDT OF THE FLETCHER SCHOOL.



CASE STORY:

# *How can we better link social performance and business goals?*

*Atlas Copco in South Africa*



*This international industrial group had a long history in the region. It wanted to do its part to help transform South Africa into a non-racial democracy with equal opportunity for all. But it was not until it started structured monitoring of its social performance that it saw where it might be falling short. By adopting more rigorous management practices it discovered just how much shared value could be created for the new country – and the company.*

## *A company willing to help*

In response to the Swedish trade embargo against South Africa implemented in 1987, Atlas Copco's representatives had left the Board of Directors of Delfos, its South African affiliate, at the end of that year. But in 1993, the political changes in the country, combined with the progressive lifting of sanctions, heralded the return of Atlas Copco to an active role in South Africa. The current company, Atlas Copco South Africa (Pty) Ltd, is wholly owned by Atlas Copco International BV and is fully part of the Atlas Copco Group.

A company that feels committed to social responsibility, Atlas Copco worked to contribute to positive changes in the country. It made efforts to diversify its workforce. Through the International Council of Swedish Industry, it supported a vocational training programme for black workers. It made charitable contributions under its socio-economic development programme to beneficiaries such as to the Siloe School in Polokwane for the construction of classrooms for blind children, and to the St Francis Care Centre for the treatment of HIV/AIDS-infected patients.

In 2002, Atlas Copco introduced an HIV/AIDS programme in its operations in South Africa, including testing, awareness training, and consultation and treatment for those who are diagnosed HIV positive. It later shared with business partners its experience and knowledge on HIV/AIDS programmes. In 2010, Atlas Copco's programme in South Africa was recognised with the SWHAP (the Swedish Workplace HIV and AIDS programme) Achievement Award for the second consecutive year.

All in all, the company felt reasonably comfortable that it was meeting its social responsibility goals.

## *The “push” of legislation*

The social performance of companies was a priority of the new democratic government established in South Africa in 1994. The removal of black South Africans from 90% of their land in 1913, followed by discriminatory laws against all non-whites that culminated in 40 years of the apartheid regime, required redress. The economic vision was clear: ensuring, through equity and empowerment policies and strategic interventions, that the South African economy was restructured. Focus was on enabling the meaningful participation of black people, women and rural or underdeveloped communities in the mainstream economy. The goals were positive impact on employment, income redistribution, structural re-adjustment and economic growth. Along with truth and reconciliation, the new democracy committed to economic justice.

The initial efforts towards what came to be known as black economic empowerment, or BEE, were widely criticised. There was perception that BEE only benefited a small black elite. More importantly, the broader transformational goals for the economy were clearly not being achieved.

Thinking developed around a more inclusive approach to empowerment. New mechanisms would emphasise not only ownership and management control (the heart of the old BEE), but also employment equity, skills development, preferential procurement, enterprise development and socio-economic development. This was codified on 6 January 2004 in the Broad-Based Black Economic Empowerment Act, becoming BBBEE.

BBBEE became dramatically more operational when the Codes of Good Practice on Black Economic Empowerment became law on 9 February 2007. These made it practical to assess BBBEE performance and apply the 2004 law through the introduction of a scorecard. This articulated clear criteria and weighting of the various BBBEE mechanisms to establish a company's BBBEE score. Government applies the law in its decisions on procurement, licensing and concessions, public-private partnerships, and the sale of state-owned entities.

The impact of the law goes well beyond companies that do business with the government. A South African company that bids on road construction contracts and uses Atlas Copco's machinery, for example, would need Atlas Copco to be BBBEE compliant to improve its own competitive position. Enterprises that seek public business or need a public license spread BBBEE throughout the value chain.

## *A call to action*

With the introduction of the new scorecard, Atlas Copco undertook the first formal audit of its social performance against the BBBEE criteria. What the company found out it didn't like at all.

Atlas Copco tells the world that it "strives to be a responsible corporate citizen in every market that it operates in by finding synergies between economic growth, environmental stewardship and socially responsible operations." And making this real is a point of pride for both management and employees around the globe.

Yet on a scale of one to eight, with one being top performance, Atlas Copco's initial audit rated the company "non-compliant:" not even on the chart. It did not track its social performance well enough even to know where it stood against the BBBEE criteria. Once preliminary data was collected and sorted, the result was slightly more satisfactory. The company merited a score of seven.

The first response to the negative audit results was technical. A great deal of confusion accompanied the introduction of the 2007 BBBEE scorecard. For example, Atlas Copco operates a number of distinct business units, each of which tried to develop a BBBEE strategy. It emerged that the audit score is calculated on a legal entity basis. Systems needed to be developed that allowed management to understand BBBEE criteria and track the information that informed its score across the business units. Models needed to be introduced that let managers ask "what if" and predict the consequences of different approaches on the company's social performance targets. The company could no longer work on social performance in the dark.

The BBBEE audit also provoked a strong dose of self-reflection. Had the company only been “paying lip service to employment equity?” There were often enough conversations about the lack of qualified candidates from previously disadvantaged groups. Perhaps those conversations needed to continue until there were plans for what to do about it. Had the company been too limited in its thinking about social performance? It made charitable contributions and tried to hire black workers. Perhaps it could also look more broadly at ownership, management, skills development, preferential procurement, enterprise development and socio-economic development. It was easy to criticise BEE and even more so its implementation. But perhaps there were some important truths embedded in the company’s BBBEE score.

Putting the technical response and the reflection together, the initial BBBEE audits were a “big time wake up call on social responsibility.” Managers realised they had been “playing football without a scoreboard: lots of kicking the ball around, but no goals.” From here on in, the company would actively manage its social performance.

## *From “push” to “pull”*

Atlas Copco began its BBBEE efforts with a “compliance mentality.” As a good corporate citizen, it would follow the letter and spirit of South African law. Aware of the business necessity, it would be the kind of BBBEE company its customers needed to do business with. And it accepted the social imperative of greater economic justice. The “Swedish Model” of good relationships among enterprises, labour and society at large, after all, was forged from the experience of widespread and sometimes violent social unrest.

It was understood that BBBEE compliance cost real money. So Atlas Copco committed the necessary resources, set at 1% of net profits after tax according to the socio-economic development element of the Codes of Good Practice for the Minerals Industry. It focused attention in the early stages on the operational divisions of the company taking full responsibility for employment equity, preferential procurement and skills development. A key initiative was the formation of the Atlas Copco Transformation Trust. This enabled Atlas Copco to carry out its obligations under both the enterprise development and the socio-economic development elements of the codes. The results were encouraging. The company’s scorecard improved from a level seven in 2007 to a level six by 2009 and a level five in 2010.

Some members of management struggled to understand and accept the need to change. They were encouraged to participate in discussions of the challenges that the Codes presented and how the company might best address these. Top leadership was clear – “we will do this right” – and followed up with careful monitoring of individual performance. But leadership also realised that resistance was often the consequence of uncertainty. So it worked to allay fears, create space for dialogue and debate, and recognise “even the smallest accomplishments.” The goal was a “conducive environment” for improved social performance. In rare cases Atlas Copco changed people. “But far more often, people changed.”

Confusion over BBBEE requirements progressively turned to clarity. Social performance became a more normal part of the management conversation. This allowed a different kind of thinking to emerge. Atlas Copco holds as a core principle that “there is always a better way.” It defines its value to customers in terms of lowering costs and increasing efficiency. Could these same principles be applied to social performance? “There had to be a solution” that would shift the resources Atlas Copco put towards BBBEE from a cost of compliance to an investment in the company’s future.

Finally the management team arrived at what they believed was the right question: “How can we better link social performance and business goals?” From that point forward, innovative ideas could emerge.

## *Social investments for the business*

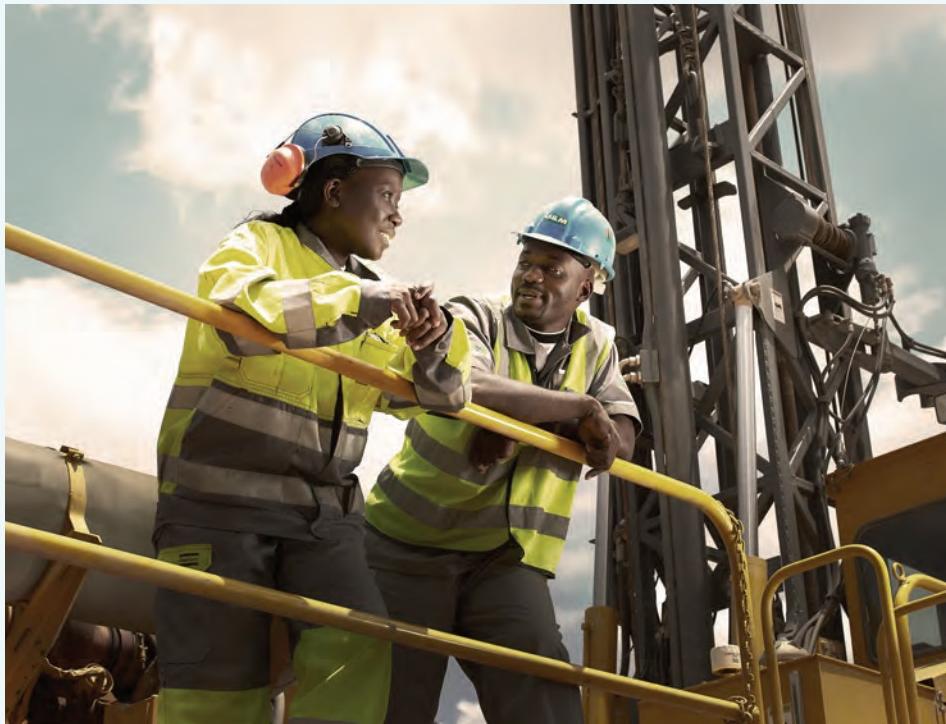
One way of better aligning compliance with benefit to the company was to invest in its own employees. The company opened the “Atlas Copco Academy” to develop employee skills. It provided bursaries for employees to pursue higher education. It took on more apprentices from previously disadvantaged groups. And when it saw that many of these apprentices were from rural areas, far from their family support systems in big-city Johannesburg, it helped establish a black-owned hostel that provided a safe and more structured environment in which they could live. Atlas Copco benefits as employment equity, skills development, and enterprise development all receive a boost.

Atlas Copco found it could also productively invest in its supply chain. Where ones with strong BBBEE performance were difficult to find, the company helped establish suppliers. It reached agreement to create a company to supply consumables, such as drill bits. Atlas Copco helped procure the milling machines and provided technical support. It provides roughly two thirds of the new company’s orders, even as there is a trend towards diversification. With the new enterprise led by a well-regarded former Atlas Copco manager, Atlas Copco benefits on social performance measures, but also from a loyal supplier it knows shares its values.

With this and other examples, Atlas Copco proved that preferential procurement and enterprise development that help improve Atlas Copco’s BBBEE score can also represent “genuine transformation” within society. The new consumables company is owned by someone who as a child under the apartheid regime had suffered forced removal from his home. Now he runs his own business. In a country where half the population under 30 has never had formal employment, there are 12 employees from disadvantaged backgrounds with an average age of 25. Some of them say they will become engineers – perhaps even for Atlas Copco.

A particularly challenging aspect of social performance for a multinational corporation in South Africa is company ownership. But it turned out that even that problem could be solved. 25% of Atlas Copco South Africa is now owned by a trust, the beneficial owners of which are entirely previously disadvantaged individuals, some of whom live in areas in which Atlas Copco has its customer base. The Trust uses a variety of different mechanisms in its many projects to deliver direct benefits to its stakeholders, including interest-free loans for business development.

This investment approach serves two purposes. First, it consciously creates a commercial transaction, passing on a business mindset rather than just money. Second, loans repaid to the Trust can be re-invested, making available resources well beyond what dividends from Atlas Copco ownership alone could provide. The Trust is more than a lender, accompanying its borrowers to help ensure their, and the Trust’s, success. Some projects are aligned with Atlas Copco’s business operations, helping to build an ongoing and mutually beneficial relationship and contributing to the overall principle of sustainability.



## *Changing business processes as social investment*

Even when compared to these innovations, some of the changes with the most impact Atlas Copco made are in its own management mindset. It learned to “beef up internal processes” to meet its social performance and business needs. To become more inclusive and at the same time meet the highest standards of quality, timeliness, and economic value for its customers, management has had to take on additional challenges.

Managers have learned to “reach deeper and broader” to identify high-potential employees and suppliers, and work to develop them. The payoff is watching someone who started as a workshop assistant – basically carrying things for others – advance into Atlas Copco’s professional cadre. Along the way, new ways of increasing people’s skills had to be developed, and frustrations among both management and workers managed. But the company “can’t grow at 10, 15, 20% per year without a good flow of new people.” The notion of “the best supplier” or “the best person for the job” could not change, but that concept could be framed in a longer-term perspective.

Managers have also learned to take more “calculated risks.” In a new initiative, Atlas Copco hires high-potential university graduates at the corporate level without knowing what position in which business unit they may eventually fill. At worst, the company provides an important post-graduate internship to help launch a new career. But the result is often better, letting the candidate and the Atlas Copco business unit find the most appropriate match. Implementing such programmes requires a willingness to experiment. In the past, the apparent risks might have prevented action. But now the company balances the risks of failure against “the risks of doing nothing at all.” As for other business investments, it has come to see social performance payback horizons of three to five years as acceptable risks.

Finally, the leadership team has learned to openly discuss the toughest issues. The top ranks of industry in South Africa, for example, are still predominantly filled by white men. This is also true for Atlas Copco, even though the ranks just below the managing director level have become substantially more diverse. As hard as it can be to touch on the sensitive issues of the politics of affirmative action or even fears for their own children's future, leaders continue the conversation until there is "consensus for change." They look at their own roles in recruitment, mentoring, and retention of top candidates with "brutal honesty." Without this, they say, something that "has to change" never changes.



## *A hard look at "soft" issues*

Asked in 2007 what they were doing, Atlas Copco management might have answered, "Complying with the BBBEE regulations." Asked in 2013 they will tell you, "Running our business." Tax regulations inform, but do not direct, the company's financial decisions. The commercial code informs, but does not direct, its commercial decisions. Just the same, BBBEE regulations inform, but do not direct, its social performance decisions. Where before BBBEE was "a mandate," now it is "a glove on the Atlas Copco hand."

Atlas Copco South Africa has come to understand that a core element of its success is a willingness to "adapt the company to the society in which it operates." The results of this thinking appear to speak for themselves. The company is experiencing consistent growth: 25% in 2011-2012, and an expectation of 10-12% for 2012-2013 despite widespread disruptions in the mining sector. Its experience is that its attentiveness to social performance "helps cement" the company's reputation, contributing to the Atlas Copco goal of being "First in Mind – First in Choice" for its customers and stakeholders. Social performance makes tangible, positive contributions to its supply chain, its recruitment pipeline and employee productivity, and its community relations. And in 2011 it reached and has been able to

maintain a “strong level three” on the BBBEE scorecard. Yet to achieve these results, management say they cannot be “chasing points on a scorecard,” but rather must be reaching for “genuine transformation.”

Arriving at this understanding has required disciplined management. The transformational imperative was incorporated into the company’s strategy and advocated up to the Board level of Atlas Copco in Sweden. Social performance benefits and risks are monetised and made concretely relevant to the business. Hard targets are set and manager performance reviewed by division, in front of their peers, on a monthly basis. Financial performance is never discussed without social performance also on the table, with advances against BBBEE a Key Performance Indicator and also “included as a measure for variable compensation.” As the more obvious solutions are already implemented, leadership requires “every element of social performance to be targeted” and “the discipline of looking at every opportunity.”

There is the added satisfaction of knowing that, “if we get social performance right, we get the country right.” As a company that plans to be around for at least another hundred years, “it’s the right thing to do – and in our best interest.” But at the end of the day, social performance is, along with product innovation and customer loyalty and capital allocation and many other management issues, “just another challenge.” For Atlas Copco, it’s become “another normal part of business.”

THIS CASE STORY WAS WRITTEN BY BRIAN GANSON. IT IS BASED ON INFORMATION PROVIDED BY ATLAS COPCO.

#### ABOUT ATLAS COPCO

Atlas Copco is an industrial group with world-leading positions in compressors, expanders and air treatment systems, construction and mining equipment, power tools and assembly systems. Based in Stockholm, Sweden, the company was founded in 1873. It has a global reach spanning more than 170 countries. In 2012, Atlas Copco had 39,800 employees and revenues of € 10.5 billion. In South Africa the company traces its roots back to 1910 when it delivered its first rock drilling equipment to the gold industry. Today the operation is based out of Johannesburg and employs around 1,100 people. (Learn more at [www.atlascopco.com](http://www.atlascopco.com))

# 6

CHAPTER 6:

## Is our own house in order?

*“The basic principles of business are the same. But you need to be much more aware of what is happening around you.”*

*– Regional Manager, engineering services, Southwest Asia*

*Translation of understanding into effective action in a complex environment requires careful adaptation of company structures and processes to meet local and global needs. Strategy becomes a far more collaborative and iterative process among internal and external actors. Risk identification and mitigation become part of the responsibilities of every function. There are important implications for project management, human resources, and governance. As country managers we may find ourselves playing the role of diplomat as we navigate competing perspectives, interests and organisational imperatives.*

Having worked diligently to understand the complex environment, the company's impacts within it, and our responsibilities for social performance, we may believe we have come a long way towards the understanding we require to identify both risks and opportunities for our company. Attentive to the data and intelligence we need on an ongoing basis and the quality of the stakeholder relationships to which we aspire we may be confident that we are poised for action.

Yet we may still experience clumsiness and missteps as we move forward. Our well-crafted strategy and our best-in-class operational systems and processes may not deliver the results we intended. Projects can be delayed and sometimes even unexpectedly abandoned at great expense as problems that in hindsight seem all too predictable all the same surprise us. Understandings we thought were clear are not acted on within the company organisation. Relationships among functions appear from time to time less than collegial.

What we may be experiencing is the failure to translate what we understand and want to achieve as individuals into organisational understanding and action. Designed primarily for other places, corporate systems to set strategy, plan operations, allocate resources and accountabilities, implement decisions, train and develop colleagues, and govern corporate behaviour may be sub-optimally adapted to the imperatives of the complex environment.

We may find that making the necessary adjustments requires us to tread both carefully and diplomatically. We will be stretching systems designed primarily to achieve technical and financial objectives to accommodate social and political goals as well, even as they still must integrate into global systems and standards. We will be negotiating between headquarters and local operations and among the company and a range of local and international actors to build new understandings about individual and collective responsibilities. As we do so we find that we as leaders and the company as a whole navigate the complex environment with greater competence and growing confidence.

These questions help us explore and improve the management of our own operations:

- 6.1 Do we have a unifying strategy?**
- 6.2 Do our operational plans reflect socio-political imperatives?**
- 6.3 Are we managing the extended organisation?**
- 6.4 Have we optimised our systems and processes?**
- 6.5 Do we have people ready for the job?**
- 6.6 Is our governance sufficiently robust?**

## 6.1 Do we have a unifying strategy?

*As business leaders we must look at the nature of the products and services we are bringing to market – our competitive positioning – as well as primary and support activities that allow us to do so most effectively and efficiently – our competitive advantage. Together the directions we set for these are our strategy. In the complex market we must be particularly attentive to the alignment of that strategy with others' expectations of us, both in addressing legacies of the past and for building a future. Strategy development will be a process of negotiation among internal and external stakeholders locally and abroad. Business, social and risk strategies must be unified with explicit linkages and trade-offs.*

***Others judge our strategy by their strategy.*** Societies have at least implicit strategies for moving from varying conditions of socio-economic or socio-political conflict or underdevelopment towards a more stable future. There are both imperatives for the goods and services that are needed in the social marketplace – for example, health care and education – and for the activities that will help the country move down its chosen path – for example, extension of opportunities to underserved regions and groups or job-led growth.

Others will judge our positioning and activities by the alignment of these with their strategies. They may fault us for failing to address the past, continuing what they see as colonial legacies of exporting only raw materials for value-added processing elsewhere. They may see us failing to contribute to a sustainable future by sourcing goods and services abroad rather than locally. If this is how society sees us, we may find the central bank less open to our requests for foreign exchange or that a local chamber of commerce mobilises opposition against us. The marketplace is not only economic but socio-political; if we are acting inconsistently with others' strategies we should expect competitive action and possible rebuke as others work towards different priorities and outcomes.

Companies align their strategies with societal strategies in a variety of ways. They adjust the goods and services they deliver, as Sandvik Zimbabwe (case story, page 50) did when it expanded its conception of health and safety issues to help address the country's HIV/AIDS pandemic. They adjust their business activities, as Atlas Copco (case story, page 198) did by working to address historic socio-economic imbalances in its South African operations. Companies that take such actions find it easier to implement their own business strategies.

***Strategy must take into account the entire corporate history.*** As country managers we may be sent to a market to help launch a new day for the company, which may itself be a relative newcomer to the country. But it is unlikely the beginning of the story as others see it. We may be a multinational agribusiness company where others in our industry have played a particularly negative role in national politics. We may be taking over from a state-owned factory with an abysmal environmental record. As an operating company in the extractives industry, we may be the fourth or fifth entity in a chain of exploration, development and finally production activities, along which any number of conflicts may

have arisen. When we have operated in a country for some time, we may also need to address our own legacies. These could include challenges such as a past history of poor labour relations, or difficult relations with local communities who were resettled to make way for our operations.

Addressing the past may not be easy. There is no statute of limitations in the court of public opinion and negative sentiments and grievances may go back many years, even generations. Legacy issues are ultimately addressed through social consensus. Thus even where a company addresses physical dimensions of an issue, such as cleaning up environmental contamination or repairing houses damaged by past blasting activities, negative attitudes may still prevail.

Companies do better when they undertake a due diligence review of legacies – inherited or generated – and involve stakeholders in finding appropriate solutions. One company operating in the Democratic Republic of the Congo declared force majeure and left the country when war broke out in the late 1990s. It returned to the country under new management following a peace accord some six years later. Former workers demanded back pay for the entire period the company had been absent. While legally the company was only obliged to make minimal back payments, it acknowledged in conjunction with stakeholders the pain and suffering employees had been through and agreed to pay a goodwill gesture over and above this sum. This gesture was well received and built positive labour relations, an important factor for the business to rebuild itself in the country.

*“Your role is that of diplomat: knowing what conversations to have when, with whom, and how. You represent the company’s history, reputation, and aspirations to participate in the development of the country.”*

– Country Manager, engineering services, Asia

**Our strategy must be negotiated.** We may believe that we have taken societal interests and the broad legacies of our past into account in the formulation of our strategy. We may, for example, study international best practice and standards as we design our social investments. But as community protests over lack of service provision or consideration of legislation by governments of minimum standards for “CSR” contributions may show, different role players may think differently about what and how we are doing. We will need to work with them to align expectations.

These conversations are not only local. Global corporate strategy may be driven in part by a strategy of competing in low-cost product segments. But these may give rise to unacceptably high corruption risks locally where we are not as distinguishable from other market players in a complex environment. International investors and advocacy groups may also have a strong point of view about everything from our supply chain management to our respect for world heritage sites. Our strategy cannot be set without reference to their reactions to our strategy, and is thus better undertaken in consultation with each other.

In working towards a common strategic vision it is sometimes more effective to let others be our advocates. A global pharmaceutical company was having trouble establishing its neurosciences area in a large developing country; the Minister of Health believed that “depression was a western disease.” Progress was stalled until the Minister at a company-sponsored regional symposium heard from his peers, “We used to think that way, too, but now we see the value of addressing mental health.” The successful country manager is often a broker and convener of strategic conversations among disparate role players.

*“In a highly politicised environment the assumption may be that the company represents resource-grabbing foreigners who are happy to leave the host country destitute. A variety of initiatives – from community health and wellness to support for the local police to educational opportunities that can lead to employment with the company – all signal the character of the company, and a different set of intentions vis-à-vis the community.”*

– Country Manager, extractives industry, Africa

**We can only have one strategy.** Because of the complexity of issues and the number of stakeholders involved in each, there is a tendency towards strategy proliferation. There is the business strategy negotiated with the global business line head. There is the political risk mitigation strategy considered with headquarters. There is the corporate social responsibility strategy resulting from conversations among government and NGOs internationally, nationally and locally.

Treating these as separate strategies with separate management and implementation paths is risky business. For example, a company operating in South Africa established a small and medium enterprise unit to encourage emerging, primarily black-owned businesses to become suppliers and service providers in order to help address Black Economic Empowerment legislation. Independent of this process a procurement strategy was developed focusing primarily on cost competitiveness and finding global suppliers of choice to provide turnkey solutions. The two strategies found themselves on a collision course, each undermining the other and leading to reputational fallout.

An elementary principle of strategy is that it clarifies what we will not do as well as what we will do, and that it makes explicit trade-offs. The company requires a single strategy that captures its competitive positioning in light of the social, political, economic and conflict dynamics of the complex environment, encompassing all of the primary and support activities that enhance or undermine it.

**Strategy is a moving target.** The lack of a path forward around which there is sustained consensus and mobilised action characterises complex markets. In India the

government approved the development of a car assembly plant in a rural area of the country, yet sustained protests against the company at a local level have indefinitely stalled the project. Different voices continue to emerge and disagree with each other, necessitating continuous strategic review.

The local context may be continually evolving, sometimes very rapidly. Following a disputed election result a country's currency may rapidly depreciate. A region may emerge as a no-go zone based on security, environmental, political or cultural factors, or it may open up. Whatever the company put in its five-year plan, decisions may be required to wind down, speed up, or not become involved in a project in the first place. Additionally, the boundaries of appropriate and constructive engagement are unlikely to be clear across internal and external stakeholder groups. Resolving such questions of corporate strategy requires a high degree of transparency on technical, financial and social aspects of our operations not only under the Global Reporting Initiative or other international regimes to which many companies subscribe, but in ways accessible and operational locally.

Vis-à-vis our business competitors it may be meaningful to think about competing and winning. Yet as the many project cancellations after multi-million dollar investments remind us, there are few examples of multinational companies "winning" competitions in social and political marketplaces in the face of sustained local opposition. Strategy in the complex environment therefore requires dialogue and partnership.

## 6.2 Do our operational plans reflect socio-political imperatives?

*Just as at the strategic level, operational planning and execution must integrate the company's full range of goals in the complex environment: technical, financial, legal, reputation and social. This requires accountability for all of these within each function, particularly those which in more stable places may have the luxury of concentrating only on technical performance. People and resources deployed – often on a cross-functional basis – must match the challenges faced. We must be particularly careful not to tie risk mitigation activities to current revenues.*

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**Responsibility for social and technical goals must be linked.** Technical and financial performance tend to dominate company thinking. Yet companies operate in social and ecological contexts. A government relations manager captures the crux of the challenge: "*Complexity is not building a railroad; it is securing permission to build a railroad.*" Thus it is necessary to manage technical and social performance together.

Narrowing the gap among stakeholder expectations, corporate strategy and operational practices requires responsibility for social performance to be shared by all functional disciplines. If a purchasing manager is incentivised only by “PQT” – price, quality and timeliness – but not by the compliance of contractors with fair labour standards, the company can find itself chasing its tail as promises made to local unions and international advocates are not prioritised by others within the company.

The links among technical and social performance become very real to operational management when problems arise; an import permit denied or a protest by neighbours blocking delivery of a crane costing tens of thousands of dollars a day to lease capture their attention. The challenge is to manage the relationship proactively. This may require significant leadership investment to sensitise staff to risk factors in the environment. As in Atlas Copco (case story, page 198), it helps when “financial performance is never discussed without social performance also on the table.”

*“Your role is not to deliver X within Y timeframe, even if the job is often described as building a road or a power plant. It is to build sustainable solutions for a long-term business. You must know to listen for human problems and social problems.”*

– Corporate Relations Manager, extractives industry

**Cross-functional approaches are usually called for.** Situations for which the solution straddles multiple functions frequently arise in complex environments. The military for which the company provides financial support to protect its operational area may seize crops to feed its soldiers. Farmers may then demand compensation from the company. Crafting an immediate response and a long-term solution could involve operations, security, community affairs, legal, government relations, and external affairs functions.

Given the interdependence of issues it is important to build a team of cross-functional experts – whomever they ultimately report to – working to find holistic solutions to challenges and plan for opportunities. Outside stakeholders see a company, not a set of discreet departments and silos. Any employee a person in society seeks to engage to resolve a concern regarding any aspect of the company’s operations needs to be empowered to assist or direct to someone who can. Functions such as external affairs cannot be expected to address challenges on their own. Multi-disciplinary teams with strong support from the country leadership are better placed to take on such issues.

Companies see clear benefits as they progressively integrate accountability for technical and social performance and work on a cross-functional basis. Managing socio-political risk becomes less taxing as it becomes part of the day-to-day business. Employees who take action even on issues that don’t neatly fit into their job descriptions reduce the chance that risks are misunderstood, underestimated or ignored. There is less finger-pointing from the shop floor complaining that community relations didn’t anticipate protests and from community relations at contracting for not paying decent wages. Rather than distracting from business, concentrating on social performance lets business move forward.

**Operational systems must favour problem resolution.** There may be broad agreement that there is a problem needing attention. All the same there may be perceived disincentives for anyone to push for resolution given concerns that they will be held accountable should negative consequences arise. One company operating in southern Africa was aware that a community was living above a pollution plume caused by its operations. Although duly noted as a pressing concern in the company risk register the only “mitigation” was the commissioning of a range of studies to better understand the problem. Only after a new country manager came into office were practical steps taken towards resolution.

Such failure to take action undermines morale and confidence in company structures, systems and processes inside and outside the company. It potentially increases harm done and liability. Operational guidelines are required to elevate serious issues sooner rather than later to country or head office management for effective resolution.

Companies can draw on their experience in other operational areas. Many companies have implemented some version of the Toyota Production System or lean manufacturing where workers stop the production line to prevent the production of defective products, understand a problem, and ensure that it does not recur. Many enterprises with strong safety cultures not only empower but require all employees to intervene in unsafe or non-compliant situations. Similar operational principles can be applied to social performance.

*“Macroeconomics and political economy are not part of the concern of a general manager in a developed market, but they are critical to the company’s success in the complex market. This creates a certain institutional blindness. Headquarters managers and corporate systems built for stable markets may not ask about these considerations.”*

– Regional Manager, industrial goods & services, Middle East & North Africa

**Project management must make room for risk management and social dependencies.** Socio-political dependencies may be absent from technical project management timelines. These may include negotiating the necessary legal and community permissions, accessing land, or ensuring the availability of an adequately skilled workforce. Furthermore, timelines involved in these processes tend to be dramatically underestimated. As one manager comments: “*Conflicts are not necessarily solved in the timeframe amenable to the company. The more conflict-prone the environment, the more the company must be at peace with treating time schedules as estimates based on assumptions that need to be reviewed.*”

The manager went on to note that a company cannot purport to be willing to work things out with others, but not provide for flexibility in company assumptions, plans and targets. More than a few companies commission detailed analyses regarding the location of

their infrastructure only to later establish that the best technical options are not socially or politically acceptable. Companies may lease expensive equipment on the mistaken assumption that some permission will be quickly granted. Careful staging and incorporation of social dependencies in plans are required both to manage costs and to avoid incentives to ignore risks to meet project management milestones. As our manager continued, “*Insisting on timeframes creates ruptures. Conflict is about people, and there are no shortcuts with people. Short-sightedness and ‘immediatism’ cause problems.*”

**Risk management budgets cannot be tied to current revenues.** Activities that address socio-economic, political and environmental issues are generally value preserving rather than revenue generating. Resources are committed to ensure that even greater resources do not in time need to be allocated to remediate what could have been avoided, and to take advantage of possible opportunities. Budgets need to be allocated informed by such an understanding.

It therefore proves untenable to base external affairs budget requirements on production or operational revenues. In particular in “large footprint” projects – infrastructure, extractives, or commercial agriculture – there is need to frontload budgets for the company both to develop its own social-political understanding and strategies and to address a multitude of external requirements ranging from stakeholder consultation through to accessing land and building enabling infrastructure. When the company slows its operations concerns are similar. Said one manager: “*When company budgets are falling, government and community relations functions need to expand to manage the tensions. Yet this is exactly when they are most likely to be cut.*”

Financial and human resources must match the magnitude of issues being managed and the risk levels of the environment, particularly tied to the insufficiency of local institutions to build sufficient consensus, reach decisions broadly seen as legitimate, or manage conflict. As in safety – where zero incidents is a key indicator and resources are committed to ensure this goal – managing socio-political risk requires investment before social or political pressure and incidents occur and then on an ongoing basis.



#### LEADER TO LEADER

## How do we work with headquarters?

Leaders reflect that they are intermediaries between a global organisation with its ways of seeing the world and the business, and the very different realities of execution in a complex environment. Managers say they must help the global organisation adapt to the local context as much as they help the local organisation adapt to the global. They say they are constantly translating from the field to headquarters.

Tensions arise, they say, when the global business model is a poor fit locally. The company in a complex environment, for example, may operate a much more vertically integrated business than the country manager is used to or headquarters is comfortable with. But insourcing may allow the company to control results and reduce uncertainties from government and suppliers across technical, financial, legal and social responsibility dimensions. There is greater need in less developed markets to think about how to manage the entire system.

Planning horizons may also be different in the complex market, managers say, requiring a longer-term view. It may be necessary to build the entire ecosystem at once: demand for the product; capacity to build the product; and development of the people to service the customer and the product. Losses may well mount before the break-even point is found. Headquarters will focus on the losses and on other challenges, like the long lead times for acquiring land. A critical role is therefore bringing headquarters along on the scope of the long-term opportunity.

Not infrequently, managers say, headquarters may be most comfortable with a “slow steady growth” strategy that demands little investment and is consistent with cost savings. The costs of introducing sound management practices into a neglected business unit may tend to provide the profitability data that proves them right, at least in the short term. Leaders find that it takes great effort to show that in a growing market of some inflation and rising selling costs the company can find itself big enough to be expensive, but not big enough to capture economies of scale or the attention of key staff, key distribution partners, or key market segments pulled to more aggressive competitors. This is not just a question of missed opportunity, managers note. It may be a question of survival. The middle of the road may be comfortable, but it often enough leads to a dead end.

There may even be disconnects between headquarters and local operations in terms of their basic understanding of the company’s business. In the complex market a premium-priced product may require a service plan that goes well beyond a standard warranty, putting a product company in the insurance business. Lack of available local talent puts the company in the training business. Even the company brand may be substantially different. For both the country manager moving from a developed market and for headquarters, it may take a while to realise that the local operating company is in a meaningfully different business.

Standard contract terms and business processes, managers note, can be a particular source of frustration. Multinationals may be accustomed to being the major player, setting terms for suppliers and distributors. In a large developing market, however, the company’s “local partner” may be a division of an industrial conglomerate that has a higher annual turnover than the multinational company’s entire global operations. Relationships of power and influence may be different than in home markets. Companies may therefore require more flexibility than they are typically used to.

Leaders find themselves working with people in their headquarters organisations who cannot locate the developing country operation on a map. All the same, managers relate, it is easy for headquarters to get nervous about a complex environment and want to control things too much. Managers experience a tendency for headquarters to become intimately involved in decisions for which they may have limited competence, mistaking information in a report for insight. This is most true in a crisis, they note, when local context is most important but decision-making may tend to become more centralised. But frequently the local business case and business model for the complex market will be heavily challenged in headquarters.

Managers learn from these dynamics to treat educating upward into the organisation as a critical job function. Country-level management requires good contacts at different levels and in different functions of headquarters to enable sensible and constructive dialogue. It is preferable to influence decisions before they are made, they note, than be arguing against decrees that have been issued. Managers find that, particularly in the beginning of their tenure, they need to knock on every door inside the company in order to be heard. Over time, they build trust that local management understands the risks and responsibilities of where it is working and is operating according to global principles. This is imperative, as there is no time to run the business if one is coping with the local environment and headquarters. Having headquarters’ “100% trust” is key to performance.

Education may be particularly important on socio-political issues. Since these are typically less important in home markets, headquarters staff may have a tendency not to understand local disruptive tendencies in society or politics. They will therefore either neglect to address these, or rather overreact when something comes to their attention. The implication for country

managers is that improving understanding at the headquarters level about what things matter and when they are not so bad is an ongoing task. They find clear processes for organised learning and decision-making about complex environments useful. Local intelligence also turns out to be persuasive. It is harder for headquarters to argue with something the country manager has learned about exchange rate risks at dinner with the head of the central bank.

Managers sometimes feel they are in a lonely position. At times there is nobody in headquarters to call: they know less about what is going on than local management does. Even if they understand a situation, they may not have the experience to know what to do about it. For better or worse, leaders say, they must accept that headquarters has recognised and depends on their management maturity. They are sometimes on their own, with nobody in the company who can grant permission based on any understanding better than the leader's own.

Managing relationships between headquarters and operations in the complex environment is therefore a hands-on endeavour. It is the local manager's responsibility to put oxygen into the organisation – upwards, downwards and outwards – driving it forward lest waiting for direction take it backwards.

## 6.3 Are we managing the extended organisation?

*In complex environments we find ourselves more than elsewhere relying on the expertise, networks, relationships and resources of outside organisations in order to deliver what we have promised in our strategies and operational plans. Looking outward we face the challenge of managing diverse people and organisations. Looking inward we must dependably translate decisions reached in cross-organisational forums into action across a variety of functions of the company. Socio-political risks must be managed across the entire value chain, with particular attention to players with short-term perspectives. They must also be managed over time, from market entry through ongoing operations.*

**We need outside help to execute.** Many of the challenges and opportunities the company faces in a complex environment are beyond the capacity of any one function or even the entire company to address by itself. The company will likely find itself engaging NGOs to work with neighbourhoods or rural communities to prepare the groundwork for company action or remediate problems; business associations that help develop local suppliers we have promised the government we will use; or a local university to develop and support a community-based environmental monitoring programme that lowers suspicions that we are ignoring legacy issues. While we may use the language of partnership, here we are talking about arrangements funded by the company and characterised by a contractual relationship: we are engaging outside expertise to deliver against distinct operational goals.

Such arrangements may be challenging to implement and have unintended consequences. One company operating in the Democratic Republic of the Congo hired a respected international NGO to assist in both assessing community needs and developing appropriate social programmes. Initial teething problems relating to different working styles were soon resolved and the NGO's company-funded activities went from strength to strength. The problem was that the company unwittingly outsourced not only the delivery of developmental initiatives but also its community relations function. The community became increasingly resentful, expressing the view that the company was doing nothing in the local community and that they should be more like the NGO who was assisting them in meeting their needs. While it is valuable to partner with others, we need to be clear about our respective roles, transparent about our arrangements, and mindful of fostering and maintaining our own direct relationships with our stakeholders.

**Decisions “out there” need to be translated into action “in here.”** Whether the company is working in true social partnerships on issues such as corruption or broad-based job creation as discussed in Chapter 5, with contracted partners to deliver against a specific need, or with cross-functional teams across its own organisation, we will be creating or contributing to teams that, in the words of one country manager, draw on diverse

perceptions and expertise to unearth the real problems and develop workable solutions. As discussed in the Tetra Laval case story (page 158), expectations, objectives and roles must be carefully clarified among partners. Implementation committees must be able to take decisions and expect action to dependably follow.

A challenge is to translate decisions made in these hybrid management forums into effective action within the company. One manager noted that, “*Our CSR staff were promising ‘a new paradigm.’ But their ‘award-winning’ CSR report bore little relationship to our actual company operations.*” Promises made externally were not delivered on internally. This undermined trust and credibility and put important company performance objectives at risk.

It helps to involve company staff who are responsible for implementation of strategies and objectives in the process of setting them. This ensures that plans are informed by operational realities while fostering a collective understanding of performance goals, priorities and resource requirements. Regular, ongoing dialogue with internal stakeholders by those working with external partners builds trust and acts as an early warning system when things aren’t on track. As one manager observes: “*Managers in-country do well to learn the value of building relationships with people throughout the company. Listen to the service technicians in the field – they know a lot.*”

**“Part of your job is to weed out the middlemen, both to lower costs, but also to build more enduring relations with suppliers. Then you can push them to grow.”**

– Purchasing Manager, telecommunications, Former Soviet Union

**Good business planning also applies to social projects.** A manager who was a PhD engineer by training said that at first she lamented that she was unable to effectively lead the extensive community relations and social responsibility functions that reported to her because she had no domain expertise. But she came to see that it was no different from managing the plans and initiatives of any other function. Even without particular expertise, she could see that a consultation process not proceeded by stakeholder mapping was unlikely to be representative. A response to a disaster that helped only a few families when many were in need was as likely to cause friction as good will. Social initiatives benefit from adopting normal business processes including risk and opportunity evaluations, governance safeguards, planning, budgeting, and monitoring and evaluation.

Applying business discipline to socially oriented initiatives also helps to ensure that initiatives are undertaken in response to genuine need rather than the whims and preferences of influential individuals inside and outside the company. There are countless cases of companies undertaking expensive social projects at the bequest of a powerful individual. Once the ribbon-cutting ceremony is over they often do not function properly: schools have no teachers, or maternity clinics no doctors or nurses. Furthermore, support linked only to influence can lead to social tensions when one community sees another favoured with largess. As noted earlier, strategic and operational planning are as much about what we do not do as what we do.

### ***Business relationships must account for socio-political risks and goals.***

Our suppliers, contractors and distributors are an extension of our operations. We will be held to account for their practices, even though we may have limited influence over their actions. What influence we do have can be put to good use to build safeguards into our contracts. But signed commitments alone are often not enough in a complex environment.

It may be necessary to provide direct or indirect assistance to help others meet the standards to which we want them to work. For example, in many complex environments companies find it necessary to contract public security providers to provide security services for their installations and concessions. While a potentially politically sensitive issue, many companies have successfully managed to influence the training given to police and military deployed to their operational areas. They thereby can stress human rights principles such as deploying minimum necessary force, and put into place safeguards such as joint investigations into security incidents involving public security providers.

Managing value chain risk may also require us taking on responsibilities that we would not normally want to, such as building our own distribution channel to avoid doing business with a corrupt company.

*“While your partner may be critical to you in the complex environment, your partner may not yet be convinced that you are critical to him. Partner motivation is key, as you are asking your partner to invest money, time and personnel in your success.”*

– Country Manager, consumer durables, Southwest Asia

***Particular care is required with short-term players.*** Our suppliers and distributors are part of a value chain and presumably have the same interests as we do in taking a long-term perspective. Others with whom we contract may not. Particularly in the start-up or expansion phases of our operations, we may engage construction or other service providers who are in fact there only to get a job done. Their project manager's bonus is likely awarded for being on time and on budget and the company's contract may contain significant delay penalties. So we must remember that, in the words of one manager, "A 'turnkey' arrangement hands over not just the new facility, but also the relationships that have been built or damaged with the community and other stakeholders."

The risks associated with such arrangements imply the need to screen partners for their values as well as their competency to manage all aspects of operations in complex environments. We must also be aware of similar dynamics within the company itself, as certain global functions with responsibilities for exploration, deal-making, or engineering may also have a mindset of arriving, delivering against a narrow set of objectives, and leaving. The company requires, in the words of the same manager, "Active management of all parts of the process from entry onwards by those who will eventually be responsible for running the business."

## 6.4 Have we optimised our systems and processes?

*Global companies often have systems and processes that are not optimised for the imperatives of fragile contexts. It falls to local leadership to understand and manage the intersection of each company process with local needs in ways that lead to executional excellence and predictable performance. Resistance may be felt to seemingly atypical approaches and additional efforts required from individuals and functions. We can borrow approaches learned from other company domains to progressively shift the organisation as a whole to be more attentive to, responsive towards, and accountable for company operations that reduce risks and increase possibilities within the complex environment.*

### ***Global systems and processes require adaptation to local conditions.***

There are tensions inherent in global organisations. On the one hand, overarching company policy can only sensibly be set at a global level. On the other, responsibility for the management of issues lies best in locally based management structures closest to the issues and their consequences. To the extent that global approaches may not have been designed with the complex environment in mind, we will likely need to actively manage the boundaries between global requirements and local realities. For example, some companies have a global requirement that local operations conduct regular stakeholder engagement with all interested and affected parties. Yet due to the post-conflict nature of an operating environment it may be sensitive – and in some cases even illegal – to directly engage with parties such as armed non-state actors who may still be present in the area.

Challenges may be particularly evident if our company is a matrixed organisation. The country manager of one Latin American country found himself at odds over political commitments being made by the head of new business development, who reported directly into the North American regional office on operational issues. As one manager noted, “*Matrixed organisations pose special challenges in the complex environment. Risks can be hidden and not comprehensively assessed. It is possible to have little idea of what the person in the next office is doing, because that person reports to someone else in another part of the organisation.*”

The country manager may need to understand in greater detail and become more involved in global processes to ensure these address local dynamics and the various commitments the company has made. This may require clarification of each function’s accountabilities, when to elevate issues up the country or functional hierarchy, and when specialist input is required prior to a decision, for example, from community or government affairs on socio-political considerations. This ensures employees are empowered to act but within appropriate boundary conditions.

**Recurrent problems call for systems reviews.** In some cases global systems may be silent on challenges addressed on a relatively frequent basis in the complex environment. Processes may make reference to local environmental regulation or standard-setting bodies that do not exist. Staff may feel threatened when a government that had experimented with free speech decides to clamp down again. Labour strikes may be more frequent and more violence-prone. The tendency absent a corporate-level system may be to treat these as crises or one-off occurrences to be managed on an ad hoc basis.

Such thinking can lead to mistakes being repeated unnecessarily. One mining company operating in West Africa was dutifully logging recurrent security incidents ranging from petty theft to more serious and widespread instances of illegal mining. Yet the trend of more frequent incursions and increasingly violent altercations between illegal miners and private and public security personnel was not fully acknowledged. Only after a series of serious incidents were brought to light in the media by an activist NGO did the company systematise its response to security challenges. It introduced root cause analysis, tracking of trends, and monitoring of the appropriateness of the response by both security and other company functions. The global system was enhanced with a locally appropriate one.

*“ You cannot arrive with the mentality that it is your job to implement a process. Internal processes are dependent on external processes, and those may be absent, or broken. Your job is to keep at problems until you find a workable solution. ”*

– Country Manager, industrial goods & services, Africa

**Executional excellence matters.** The OECD has noted that, “The principal distinction between investments in weak and in stronger governance host countries lies not in differences in the concepts and principles that apply to managing them, but in the amount of care required to make these concepts and principles a reality.” Attentiveness is required in the complex environment to the fine details of processes and their execution to monitor them for unintended consequences.

In a more developed market, for example, payment systems may operate by rote: an electronic funds transfer within 60 days in accordance with standard contracts and prevailing business standards. In the complex environment, by contrast, accounting may need to consider whether to pay in cash or in kind; the impact of any payment delays on peoples’ livelihoods or a small supplier’s ability even to stay in business; whether in areas of high migrant labour thought must be given to the families back home in rural regions; whether it is appropriate to publically disclose payments to manage fears of corruption or favouritism; or whether payments may subject recipients to criminal attacks.

Process optimisation may focus on risk reduction, but it also plays a role in value creation. In the dairy hub example explored in the Tetra Laval case (page 158), guaranteed daily milk collection and dependable weekly cash payments were the keys to unlocking enormous productive potential among small-scale farmers who with stable payments could finance their own purchases of milk cows and provide them with feed. Seemingly small changes can have large impacts.

**We can build from our base.** The task at a systems level is to progressively shift the organisation as a whole to be more attentive to, responsive towards, and accountable for company operations that reduce risks and increase possibilities within the complex environment. It may at first be challenging to achieve buy-in. Even if long-term results are more satisfying and efficient they require additional effort in the short term. People and functions may need to grow beyond their comfort zones. As in many systems tasks, push-back is natural and should be anticipated.

Credibility and buy-in for systems and standards for the complex environment can be built off of the local company's existing shared organisational beliefs and values. Sandvik Mining Zimbabwe (case study, page 50) adopted a safety lens, for example, to consider its HIV/AIDS response. They decided that they could be accountable for outcomes even when all contributing factors were not within their direct control. They accepted the importance of integrating the initiative into company policy, systems, processes, decision-making and budgets. By taking safety as a reference point – to which management was already committed – it was easier to make progress in the new domain of HIV/AIDS.

*“What is needed is a resilient organisation, designed from the beginning to fit the realities of the environment. This means, however, that you will be constantly negotiating with headquarters to adjust and adapt their way of working.”*

– Site Manager, extractives industry, Africa

**Linkages to other complex markets can help.** Headquarters colleagues may have less experience with complex environments than country management. This may make the job of optimising systems and processes to suit the needs of the local context feel particularly lonely. Outreach to similarly situated organisations may help.

This may take the form of structured systems that ensure that both positive and negative lessons learned at one operation are made available to others across a global organisation. Many companies share their event reports, grievances and remedial actions taken across operations as soon as possible after major incidents involving production stoppages, safety, health, environment, community, security, or labour issues. This reduces the need for mistakes to be repeated.

Face-to-face and virtual networks can also nurture continual improvement while providing opportunities to celebrate successes along the way. Peer review processes can more directly expose staff to other perspectives in an unthreatening manner. The most natural network may be among the same function across different operations in the same global company: community relations, legal or security, for example. But opportunities may also exist with other enterprises in the complex environment through business roundtables or other mechanisms that bring colleagues together on a cross-functional basis. All these approaches support the learning required to enable decentralised, local decision-making within clearly defined global policy boundaries.



#### LEADER TO LEADER

## How do we develop our people?

Leaders reflect that it is perhaps true everywhere, but it is especially true in complex markets that it all comes down to people. There must be great willingness to invest in recruitment and people development.

This is first of all because the multinational company in a complex market must often position itself as a service company or a solutions company, not just one that supplies a product. Only a very small percentage of the available workforce may already have the skills the company needs to deliver. It is often not possible to hire enough experienced people to meet aggressive growth targets. Neither can companies stand outside the university gate and hope for the quality of candidates they need. Business must be directly engaged in education and training.

Managers find building rather than buying talent at all levels takes patient investment. New university graduates must be hired and seen through the first difficult years. Technical staff may need opportunities for experience outside the country that they can't yet gain inside. The company may need to help strengthen local educational institutions. The payback horizon for such human resources investments can be long, but the company gains staff who are eager to learn, eager to work, and loyal to the company. Even employees offered more money by competitors will stay if they believe that they are learning and contributing to something worthwhile.

Leaders also emphasise that country managers glued to their chairs are not effective. They must be educators to headquarters and the Board, and leaders of non-technical functions in the field. Extracting oneself from the day-to-day tasks of technical management must therefore be a priority for the new manager. There can be no compromise on a senior management team of the right calibre; they are the only people who get the general manager out of the business of firefighting and on to leading the business. Time and energy are required to build such talent, but there is a business imperative to empower others.

Among local staff is where senior managers most often find their future leaders. But creating a local team whose value can never be replicated by expatriates requires training. In fast-growing markets, rising managers need enhanced support. Many can be lost because their responsibilities grew too fast. On paper managers may have risen one level, but measured by the size of the business they manage they've jumped three or four. Leaders reflect that it's no wonder they don't survive. To provide appropriate support for new leaders, senior management should not be thinking about the team the company needs today, but rather be building the team for the future.

Leaders in complex environments find that their most intensive and personal focus may be on how people work together. Teaching people to deliver against technical tasks they find relatively easy, sometimes almost a side business. Team formation is much harder, cutting across contexts and cultures and technical experience. This is often because of the particular context of a developing country.

Where people, through history, have had broad negative experience with authority, their tendency may be to be cautious. They may think in terms of what the leader wants instead of what the business needs, and above all work not to confront. It is much harder to get to the real issues with people. Where the expatriate leader may operate under the premise that it is best to trust people unless they give you a reason not to, people in a complex environment are far more likely from their experience to believe that no one can be trusted until they prove otherwise. This can take a year or more of regular contact. And of course any word or action perceived as untrustworthy will close the door.

A new leader may be frustrated that people answer only the questions directly posed to them, or that they won't act when the leader is not present and conditions change. It can be easy to question people's motives or competency when they fail to share important information or show resourcefulness. But leaders come to understand that it is no more natural in the complex environment for people not to communicate than it is in the leader's home country. It is rather a function of rules that said the poor don't speak with the rich and the powerless don't confront the powerful. People may come from a history where they were suspect if they took too much initiative.

Leaders find they can take advantage of their position as a newcomer to change the rules. By committing to shortening the distance between leaders and workers, they create openness. They all the same cannot simply announce that they believe in "democratic" teamwork and expect it to happen. People may be afraid of losing face when they say they don't understand something, whether a concept or a particular word used. People may be afraid of authority. They may simply be waiting for the country manager to leave like all the other foreign managers did.

Building trust within a local team is therefore a long-term, day-to-day, person-to-person process. So too is helping others within the organisation take responsibility: having the right to make mistakes, but also being accountable for results. People must be led to participate in

decisions. Addressing this may require, ironically, a more authoritarian approach to helping others take charge: “Please come to me with your best ideas for meeting this challenge.” Both the manager and local staff require new ways of working together, overcoming broader social challenges and bad leadership of the past.

Leaders reflect that they can have the best and least expensive product and still fail in the market if they treat people simply as inputs. They find it most critical of all not to underestimate people, particularly in a country they don’t know. The system may be broken, hiding what people can do. Talents emerge as management processes improve. In most cases people will be hungry to show they can develop, and with proper investment, most will really grow. All it takes is treating people with respect and acting with passion for their development.

## 6.5 Do we have people ready for the job?

*Individual competency is the foundation for organisational capability. Because of rapid changes in the business and the environment, as well as potentially long lead times to recruit local candidates and develop current employees, we are engaged in staffing for the company of the future. Negotiations may be required to incorporate into global human resources systems the role definitions as well as their attendant skills and capabilities particular to the complex environment for all functions and at various levels of responsibility. Team diversity needs to be managed. But when we succeed in establishing a culture of critical reflection and learning, we may have found one antidote to complexity.*

***It helps to look to the future.*** Crucial to the business's success is having "the right person in the right role at the right time." This has two temporal dimensions in the complex environment. The first recognises that evolving skills sets are needed for different stages of a company's entry into and growth in a market. The human resources manager's role during entry into a country will focus on issues such as recruitment, training and putting HR systems and processes in place. But as the company grows in size and employee numbers, employee relations, retention and maintaining and growing systems and processes will become all the more important. While the job title remains the same, the role can demand different skills sets. Hence the individual who sets up operations in a country may not be best suited to grow the business there.

The second dimension recognises that positions in a complex market present greater challenges and may develop more quickly than those in a business unit of the same size in a more stable place. Leaders across functions will be dealing with issues – financial, logistical, political and otherwise – likely not on the desks of their Western European counterparts. The business in the emerging market may also be poised to grow more rapidly than that of a stable market ever could. The right candidate today may therefore be the one who can manage the responsibilities of a far larger and more complex business unit than current revenues suggest. We need to be thinking about the competencies that will be called upon in the company of the future.

***Competency profiles may need enhancement.*** More businesses now speak about T-shaped competencies: deep expertise in one area complemented by broader ability to work collaboratively and act in areas other than one's own. It will typically fall to country management to clearly define those wider elements of roles in all functions and at various levels of responsibility particular to the complex environment. One manager noted, for example, that, "*It has become an essential organisational skill to be able to effectively identify and properly engage with stakeholders.*" Such recognitions allow explicit determination of the knowledge, skills and capabilities required to discharge even typical company roles under difficult circumstances.

Where human resources systems are global, negotiation may be required to include enhanced role definitions as well as enabling skills and sensibilities in recruitment and development processes. One manager noted that her global company considers tenure in a difficult environment an important stage in career advancement, though it takes no particular steps to prepare managers for success. She reflects that the company is probably right in assuming that a leader who survives trial by fire amid socio-political tensions will be successful elsewhere later on. But she questions whether this is a strategy for success, either for a company or a society. Systems need adjustment if they are to assist in assessing ongoing training, development, and support needs.

***It is never too soon to develop local talent.*** Recruiting and developing staff locally meets expectations of host governments and other stakeholders, supplies the business with local knowledge and allies in the company's success, and expands the company's networks. Longer lead times, however, are often required. The company may need to put in place affirmative action and localisation programmes that address race, ethnicity, gender or other issues to ensure redress for marginalised or discriminated-against groups. Lack of preparation and opportunity mean that even high potential external candidates and existing staff may need skills training and educational opportunities beyond those provided in more stable markets. The necessity for these investments makes human resources management more complex, but as one manager noted, the result is "*staff who are eager to learn, eager to work, and loyal to the company*."

It cannot be assumed in a global company, however, that a local national is automatically the right person for a job. Knowledge, skills and capabilities as well as attitudes and sensibilities required for success in a complex environment can be enhanced but not replaced by local knowledge. In situations of pronounced social division or political disruption – where the company may need to make quite difficult decisions about whom to do business with or even whether to wind down operations – management may also not want to put a colleague in the untenable position of choosing between his ethnic group or his country and the company. Some managers have found that a regional candidate who understands the context but can keep some professional distance may be the better choice.

*“It is important not to underestimate people, particularly in a country you don’t know. The system may be broken, hiding what people can do. As you fix systems and processes, their talents will emerge.”*

– Factory Manager, consumer durables, Former Soviet Union

***Team diversity needs to be managed.*** Where teams are homogeneous there tends to be a greater level of pre-existing trust and mutual understanding. Such teams also tend to share the same blind spots and sometimes skills deficiencies. Diverse teams have a much higher performance potential – good news for global companies that tend to have heterogeneous teams in complex environments. But active management of team diversity is required to find common understanding. As one country manager cautions, “*One must take time to understand how people work together. Otherwise nothing gets done. How people interact can be 90% different compared to the home office.*”

Companies achieve the benefits of diverse teams when members take the time to understand each other's perspectives and world views and therein the "thinking behind the thinking" on issues and decisions. Approaches companies have successfully used include the team sharing and discussing the results of their personality tests, explicitly talking through how decisions are made and who should be consulted, and understanding each other's personal stories. Such investments allow the company to bring multiple perspectives to the table in ways that lower the risk of making decisions that alienate employees and external stakeholders.

*“You cannot simply announce that you believe in ‘democratic’ teamwork and expect it to happen. People may be afraid of authority. They may simply be waiting for you to leave like all the other foreign managers did. Building trust within your local team is a long-term, day-to-day, person-to-person process.”*

- *Information Technology Manager, consumer durables, Asia*

**Continuous learning is key.** “*The need for communication and more communication in the complex environment cannot be overstated,*” noted one manager. Approaches beyond training that keep eyes open and promote adaptability are key. At the level of personal reflection, individuals or teams can engage the services of a mentor or coach who helps them focus on non-technical aspects of their behaviour, skills and performance. At the level of organisational reflection, practices can be built into management processes and systems to foster learning and increase competency.

Such collective reflection can build off existing reporting cycles or incident management processes to become a standing item on meeting agendas. In some companies, all meetings start with a “safety share.” By entrenching a continuous focus on safety and reflective learning that is context appropriate – such that production employees will share quite different issues from administrative staff – safety stays top of the mind. In complex environments, having each function reflect on broader socio-political issues and how they impact on “their domain” can build a culture of critical reflection and learning. This may act as one antidote to complexity.

## 6.6 Is our governance sufficiently robust?

*Formal management and governance systems are key to systematising what the company is required to do by law, what its external stakeholders expect it to do, and what it itself would like to do. We may need to adapt those designed for more stable places to meet the needs and expectations of our complex environment. We will likely need to include more effective institutionalisation of formal and informal commitments; better tracking and management of all categories of risk; balancing of short- and long-term approaches to risk mitigation; a focus on substantive outcomes; and a mix of approaches to listening to ensure that we remain aware of our socio-political assets, liabilities and risks.*

**We need to keep our promises.** Both personally and organisationally, most company managers would be offended by any suggestion that they do not keep their word. Yet this is the experience of many people over the years with multinational corporations in complex environments.

Companies need to ensure that past commitments are remembered and acted on. In one case the regional manager of a company operating in West Africa speaking at a local event promised that the company would respond to a request to electrify the local villages in the vicinity of the project. He left the company soon thereafter along with a number of other managers. Nothing further followed. Two years later a violent protest broke out with the primary grievance being the lack of progress on the electrification promise.

In countries with less reliable legal systems companies also need to be aware that people may make little distinction between less formal statements and what we see as a legally binding contract. When we say we are building a road and others align their hopes and actions with its arrival, it is of little import to them when our lawyers say it was not a formal part of our establishment agreement with the government. Companies therefore require a systematised process of tracking delivery against commitments both formal and informal.

**We need to track and manage all risks.** Company risk registers increasingly formalise tracking of risks as they are identified, together with risk accountabilities, actions where required, review dates and confirmation of effective risk mitigation measures. There are often escalation processes to ensure flagging and management of risk at the business unit, country, or headquarters level of the company as appropriate.

Such systems all the same typically exhibit weaknesses in complex environments. They often focus on risks from company actors and operations: fraud, corruption or environmental damage, for example. They may thus miss risks from action by others – for example, small-scale miners dying in accidents in mineshafts we have as a mining company have discontinued using but still own – as well as significant risks not directly involving company operations – for example, uncompensated government seizures of land not for our use but perhaps in the industrial park where we are located.

Yet effective risk management and the ethical leadership described in Chapter 5 are impossible without honest assessment and open deliberation of all risks, individually and cumulatively. Our task is therefore to explore and keep the full range of risks on the management agenda and alive in leadership conversations at all levels of the company.

***We need to insulate risk assessment from profit and loss considerations.***

Risk assessments often highlight inconvenient and potentially costly truths. Discontinuing business with a key supplier found to be corrupt may cause financial losses and business disruptions as alternative suppliers are found. Significant environmental or social issues may be costly to remediate. There may be real or perceived disincentives to include in risk registers or escalate to higher levels of corporate governance even serious risks if there does not seem to be much the company can do about them or if what it could do would be costly or disruptive to operations. People who are trying to meet tight deadlines on tighter budgets may downplay risks, even if they do so unintentionally.

Overcoming such challenges requires risk assessment processes that are not dominated by functions focused on financial and technical performance. Risk management committees are often nominally independent – reporting directly to the country manager or even working with an outside auditor – but they are typically highly dependent on operational functions to identify and assess the severity of risk. Sound management requires risks to be assessed by those removed from day-to-day responsibilities and expert enough to make independent assessments. Since socio-political risks are often only indirectly tied to company operations, risk assessment should also engage well beyond the company's walls.

***“To fix the future, corporate governance must be attentive to support of society in building trust, leadership, democracy, sound institutions and the rule of law.”***

– Senior Corporate Counsel specialising in complex markets

***We always need to be thinking long term.*** While some decisions may relieve tensions in the short term, they may have unintended consequences down the road. One company operating in East Africa agreed under community pressure in a public forum to provide a water supply to the local town. Seven years later the town had grown into a city of over 100,000 people who still expected the company to deliver on its commitment on an ongoing basis. The promise made to make a current problem go away became a permanent liability for the company – yet one probably not reflected on its balance sheet.

“Buying the peace” almost always seems like a good strategy at the time, particularly in complex organisations where different functions have different time horizons. The “deal makers,” for example, often arrive, conclude negotiations, and move on to the next deal. As long as their actions are strictly speaking legal they may, for example, pay less attention to the risks of sharing benefits with leaders perceived to be illegitimate as subsequent managers would like. There may be little individual country managers can do when they arrive into such a situation except to unearth past arrangements and promises, add them to risk registers and operational budgets as appropriate – and not create the same legacy problems for those who follow.

**We need to value substance over process.** Form becomes more important than substance where systems health is focused on at the expense of actual performance health. One company in West Africa was recertified compliant with ISO 14001 – an international standard for environmental management – yet its operations were suspended by the country’s Environmental Protection Agency a month later. While the paperwork was in order and all of the boxes ticked, actual on-the-ground performance was non-compliant.

Evaluation of our compliance with a host of process requirements plays its role. But we must remain aware of the risk that these can, in the words of one manager, “suck the energy out of a system. Millions of dollars can be spent without addressing core issues.”

A starting point for company leadership may be clarity about what is being certified. ISO 14001, for example, does not state requirements for environmental performance but rather describes characteristics of management systems. Similarly, recently promulgated “conflict-free” procurement certifications assess policies and procedures but do not require auditors to assess whether the processes used actually prevent inappropriately sourced minerals entering the supply chain. Such understandings put squarely on the table may help open a conversation within the company about the resources and competencies needed for people implementing and overseeing critical processes to ensure effective performance.

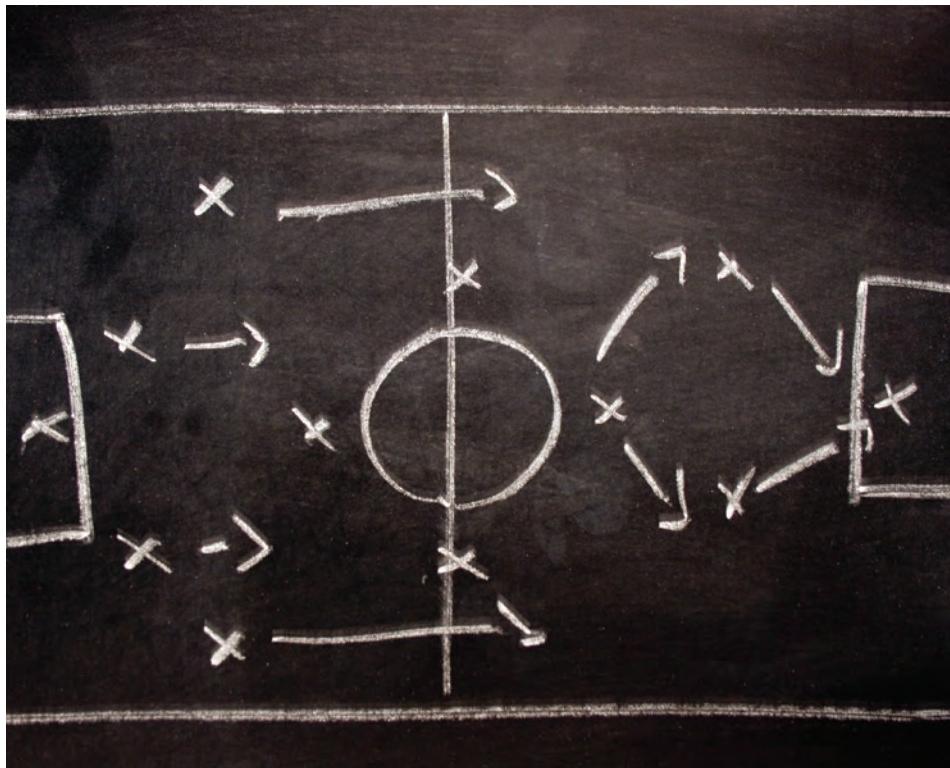
*“Whereas our lawyers may say that nothing has been promised, society will hold us accountable for all the hope we created when we wanted the country’s cooperation. We need the country’s support throughout a project, and this means understanding that a promise is what they understood to be our commitment, not what our lawyers say it is.”*

– Country Manager, extractives industry, Africa

**We need to keep our doors and ears open.** Even the best managed companies make mistakes. At the incident level, this requires external assessment and engagement processes that act as early warning and preventive systems as part of governance efforts. Informal and more formal grievance systems accessible by a variety of stakeholders in a variety of ways increase the possibility of solving grievances as quickly and as locally as possible.

Clearly defined and understood incident reporting and review systems help improve both company accountability and learning, even as they discourage a culture of “shooting the messenger” by focusing on the issues rather than the individual communicating bad news. These require common understanding of what should be reported. They can usefully encompass reviews that ensure that key performance indicators, bonus structures or incentives for health, safety, social, security and environmental performance do not lead to non-reporting of incidents to meet targets.

Beyond the incident level the country manager can engage in broader reviews of the company's socio-political assets, liabilities and risks. As noted in earlier chapters, this requires sustained effort to reach beyond like-minded actors. World views, interests, priorities and needs influence what is seen, said, heard, understood and acted on. Governance from this perspective is a search for shared understanding of how the company should be performing and how it is performing, at each particular discussion table and within a broader social framework.



#### LEADER TO LEADER

## What is the leader's role?

Leaders reflect that it is easy to imagine the country manager role in a developing country as similar to running a product line in a European market. After all, both may be \$50 million businesses. But the jobs are completely different. The country manager will face challenges of supply, quality, talent development, and competition for company resources quite unlike the home market. The manager will be subject to many more challenges of a political nature as well.

This requires letting go of a self-view based solely on functional expertise, whether marketing or engineering, and reconceptualising one's role as primarily one of diplomat. Other people can take care of technical aspects of the business. But the leader must intimately know and position the company among its customers, markets and the broader political landscape. The leader's role encompasses the industry, the general business climate, economics, and political economy, requiring a great deal of political astuteness.

As a diplomat, the country manager represents the company's history, reputation, and aspirations to participate in the country's development. It can't be left to agents to tell the company's story to the government or others. Country managers must be highly connected, able to listen and learn within a complex environment. They must know what conversations to have when, with whom, and how. They must then integrate tensions between public and private interests into company thinking and planning; understand different elements of the problems in ways that allow for synthesis of a solution; and work within processes inside and outside the company to

resolve such issues consistent with business success. This requires both innovation and taking risks to solve problems with others.

The company leader is often also a diplomat vis-à-vis customers, reflecting a much more hands-on role. Interactions with customers that should be left to the head of sales in Europe may need to be led by the managing director in a developing market. This may be part of a delicate balance of respecting yet challenging the customer. Its leadership may not believe there is much to learn from a foreign company. It must be acknowledged that the customer has so far been successful under difficult conditions. But the conversation must lead the customer to better ways of using the company's products and services if both are to succeed. This is a leadership task.

Finally, the country manager is also the diplomatic representative of the local organisation and its people with the home country organisation. The manager cannot blame headquarters. Local legitimacy particularly as a foreign national is premised on the manager's influence with senior management. If the local team begins to doubt this, the manager will have trouble maintaining their confidence and their support. An attitude that, "I'm the foreign expert and I know better" will not work. First of all, an expatriate manager doesn't know better in the local context. Second of all, nobody will listen. Leaders must prove their worth to the organisation by demonstrating what they can deliver.

Building trust and confidence with all stakeholders is a crucial element of the role, and a key leadership task that must be continuously discussed within the management team. For this the leader must be curious, open, consultative and proactive in effecting change. Leaders must work to understand, learn to communicate, and ultimately, be ready to adapt their approach and the approach of the company to the needs of others. This requires engagement in the world around them. If the leader is not genuinely interested in the country, its people, and its politics, people will see it and feel it. Leaders must respect local people's pride of history and of their civilisation. They must respect local people's pride of success doing things their way. They may disagree with much in the society, but must remain curious about why things are the way they are and what people are doing about it. This opens the door to asking, "Is there something we can build, together?"

The leader's role must balance two imperatives as general manager of the company. The first is to listen: to understand the perspectives of everyone, from colleagues to taxi drivers. The second is to make explicit and challenge assumptions: for example, that company planning assumes it cannot play a meaningful role in reducing conflict, when perhaps it can. Broad experience helps the leader have a considered point of view. But it is openness and willingness to understand people and their values that builds respect and creates the possibility to ask whether the company couldn't do better, and help make things better.

Managers find that people inside and outside the company have high expectations of the company leader. They experience few breaks from their role, professionally or personally. They must be attentive to a host of issues rarely confronted in developed markets, which may range from ensuring adequate foreign exchange to providing food to employees and their families during difficult periods. Ingenuity is often enough the order of the day. Greater risk-taking may be called for, particularly in hard times.

Sometimes the country is in a very difficult economic situation, and daily life as well as the business are not getting better. People lack motivation, and corruption undermines the business case for better and smarter investments. Then the leader has to understand that the role is to be in the business of selling hope – that things can get better.

There is a challenge of general managers rotating in and out of markets every three to five years. Leaders find it critical to not measure success within that time period, but to do so rather in terms of foundations built and legacies left. This may be a radical change from how many companies operate. It also requires humility on the part of the leader, not worrying about his or her own footprint, but rather being willing to pass on a gift. Particularly in complex environments, the role of the leader must be to act as the steward of an organisation that must grow and flourish long after the leader has moved on.

Leaders reflect that it is impossible to be a good leader without genuinely liking to work in a challenging environment. If it's just a job – if the manager doesn't care – it will show. If the manager is frustrated that things are not like at home, then the manager should stay home. Successful leaders love what they are doing and are deeply grateful for the opportunity to do it.



CONCLUSION:

# *Who should be asking these questions?*



*“The debate used to be much more about **if** companies should be in fragile environments. Now it is much more about **how**. There is a much greater expectation that companies will keep their promises, and a much greater capacity to see if they are doing so.”*

*– Corporate Communications Manager, industrial goods & services*

*Provided we have approached the task of asking the questions posed in this work with openness, curiosity and rigour, we and those around us should have greater confidence that we are able to meet our company's full range of goals in a challenging context. Yet as individual leaders we are part of complex organisations that are in turn part of even more complex societies. A reasonable conclusion is that many others might also benefit from asking and addressing these questions for leaders.*

If we have asked and thoughtfully addressed the questions posed in the preceding chapters, we have a better understanding of the complex environment in which our company operates. We see how the company is an integral actor in political, social, economic and conflict dynamics in ways that can be more or less positive, depending on our own actions. We are more in tune with the full range of responsibilities for which the company is accountable. We can more meaningfully engage the experts who advise us and make better use of the assessments, tools and processes meant to help us mitigate risks and identify opportunities. We can more productively interact with a variety of internal and external constituencies. We can more successfully design and implement constructive strategies to the benefit of both the business and the society of which it is part.

Provided we have approached the task with openness, curiosity and rigour, we and those around us should have greater confidence that we are able to meet our company's full range of goals – technical, financial, legal, reputation and social – in a challenging context.

Yet it should be clear from the expert insights and practical experience of managers captured in this work that no one person or single company can succeed alone. As noted in the Foreword, leaders act at the intersection of headquarters and the field, strategy and operations of the company, and the company's relationships with private sector, government, community and civil society partners. Company operations are inter-related with myriad socio-economic and socio-political developments of the complex environment and thus with the priorities, plans and activities of many others. Below we share reflections on how these questions for leaders fit into this broader framework.

## *What is the bigger picture?*

Our understanding of the importance of private sector engagement to stability and development in complex environments continues to grow. Investments that facilitate employment growth, skills development, and a more inclusive economy are not only valuable in their own right. They may also reduce socio-political tensions in ways that create space for consensus-building and practical progress on security, civil rights, good government, and other challenges.

Company efforts to help address socio-political tensions – whether caused by its own presence and operations or in the broader environment – should in very straightforward ways be win-win. They reduce risks to the company such as loss of license to operate, operational disruption, or implication in human rights abuses. Enhanced capacity to engage also helps the company to create new business opportunities. Even if a company measures

its performance only against a more limited technical and financial scorecard, its ability to meet its goals in a complex market is facilitated by its ability to help create a more stable operating environment.

Yet far too often this mutually beneficial relationship of business in society is not what we find in fragile contexts. At the same time the positive potential for business is more widely acknowledged, there is growing documentation of the negative roles that companies can and do play in many complex markets. Even well-meaning companies may unwittingly raise tensions with community, government, labour, or other actors. Company action or inaction may contribute to increased instability in already-challenging environments, undermining both company and social objectives.

One key to understanding this gap between aspiration and performance is in an examination of the capabilities of companies to manage in difficult contexts. The International Council of Swedish Industry (NIR) in 2011 published a work entitled “Private Sector Actors & Peacebuilding.” Joining the voices of many others, it argued that, “Corporate activity in sensitive markets characterised by conflict requires an aware and knowledgeable private sector able to devise the kinds of strategies that may make them a positive force in such markets.” The same can be said for companies operating in less overtly conflictual but still complex environments. Enhanced capabilities to understand and manage political, economic, social and conflict dynamics work to the good of companies, as well as the communities they touch and the broader societies in which they operate.

Despite this imperative, our research and outreach to companies over the years has introduced us to countless country managers, site managers, presidents of local operating units and others who shared with us their feelings of being poorly prepared to lead company operations as they relate to the complexities of particular contexts. Leaders often enough report finding themselves at a loss to oversee, for example, conflict and risk assessment, human rights compliance, community relations, or conflict prevention efforts, even as their companies acknowledge the critical role these activities play in stability, business success, and inclusive development. They are challenged to understand and act on the inter-relationships of the company and a fragile or conflict-prone environment.

At the same time, leaders note that they cannot solely rely on functional experts from inside or outside the company. Managers must have a strong enough foundation to meaningfully engage all of the company’s functions, providing a critical eye and effective oversight. Otherwise, they cannot play a leadership role in shaping strategy, reviewing operating plans, or effecting positive change. Enhanced leadership capabilities are required to steer the company in the most constructive direction possible. They, their companies and the societies of which they are part benefit when leaders learn to ask and address the kinds of questions set out in this book. This is the premise of the NIR initiative and of this work.

Leaders are all the same not individual actors. However heroic, they do not effect change on their own. They are part of complex organisations that are in turn part of even more complex societies. A reasonable conclusion is that many others might also benefit from asking and seeking answers to these questions for leaders.

## *Who else should be asking questions?*

A country manager is one link in a chain of responsibility running all the way up to the Board of Directors. If rigorous and nuanced responses to inquiries suggested in the

preceding chapters are to increasingly inform company strategy and operations, then these questions for leaders must be asked all along that chain. Many of the decisions that prove important to avoiding harm and capitalising on opportunity in complex environments – including market entry, strategy approval, or staffing and budget levels for stakeholder engagement – are typically made above the country manager level. Ultimate accountability for risk management – related to loss of permission to operate, damage to reputation, operational disruption, legal liability, entanglement in gross human rights violations, or other serious matters – lies at the executive and Board levels. The questions in this book can be a guide to aligning conversations across all levels of the company to help turn environmental uncertainty into manageable business risk.

Another important audience for these questions may be leaders of support functions. Our research suggests that companies' policies and internal systems – across strategic planning, accounting, project management, contracting, government and community affairs, legal, security, social responsibility, or human resource development – are often poorly adapted to the challenges of operations in complex environments. More robust processes may be required for selecting the right staff and increasing their skills; monitoring the external environment and the company's impacts within it; making trade-offs among social and business imperatives; incorporating external stakeholder perspectives into company decision-making; and tracking promises made and implementation of decisions across all functions of the company. As company functions and systems increasingly address these questions for leaders, astute country managers will be increasingly enabled and supported by the global organisation.

Many institutional investors, project finance lenders, home country governments, and international institutions are increasingly concerned with transnational businesses in complex environments. They have primarily focused on standards of conduct to which companies operating in difficult environments are expected to adhere – the “what” of company strategies and plans. The issues raised by experts and managers alike suggest that some inquiry into companies' capacity to meet the social performance commitments they make – the “how” of company operations – may also be useful. Assessment of systems, processes, and human resources for asking, answering, acting on and monitoring performance related to the questions posed in this work may be a starting point. Such operational due diligence could reduce risks to investors and societies alike.

For host country governments – as well as those who support good government and good governance agendas – the importance of sound institutions should be underlined. Even where foreign investment is ultimately good for a country and its development, the related decisions, trade-offs and allocation of risks and benefits may stress – sometimes to the breaking point – social and political infrastructures that may already be relatively weak at the national or local level. Companies perform better when they can plug into broadly legitimate and inclusive public processes. In complex environments this may suggest a need for enhanced mechanisms that allow all voices to be heard; identify social, political, economic and conflict risks and opportunities related to business activities; develop consensus around solutions that meet a variety of stakeholder interests; and facilitate their implementation. Creating forums that convene a variety of actors to ask and address these questions for leaders simplifies the task of mitigating risk and aligning more positive action for everyone.

For development and peacebuilding actors, the preceding chapters highlight business as one role player among many in a fragile or volatile context. No matter how ethical or effective business may be in managing its own operations, it cannot by itself prevent conflict

or negative impacts. It may therefore be useful to focus on the shared responsibilities but differentiated roles of a range of actors. Often overlooked is the proactive building of local capacity in anticipation of business investment. Education and outreach can set realistic expectations for business impacts both positive and negative. Development of community-based monitoring systems can embed local researchers to collect data across social, political, economic and conflict domains. Capacities for participatory appraisal can centre analysis and planning at the local level. These and related approaches empower local actors to ask and address these questions for leaders themselves. This may help them anticipate and manage the dynamics of business operations in complex environments and build more mutually beneficial relationships among business and society.

Some activists or advocates may remain dubious about an underlying premise of this book: that many leaders of international companies take their responsibilities seriously, are willing to take on more constructive roles in complex environments, and increasingly recognise the need to develop enhanced capacity to do so. For them these questions for leaders may provide a roadmap for holding companies accountable. As set out in the Foreword to this book, senior executives acknowledge that good leadership is within a company's reach. It is thus perhaps not unreasonable to expect clear and cogent answers to these questions so that any concerned party can make an independent assessment of a company's intentions, strategies, operational plans, and capabilities for implementing them – and expect the company to make appropriate changes where it may fall short. Most of the leaders with whom we worked to produce this book would desire no less.

## *How do we keep the conversation going?*

One reason this book favours questions over answers is out of some measure of humility. The authors have worked in and with companies in complex environments for many years. Despite our individual and collective experience we – like even the most successful business leaders we encounter – do not feel especially competent to offer definitive answers. We rather feel that we are on the same journey of exploring challenges and seeking positive and sustainable futures for businesses and the societies of which they are part.

We therefore hope that these questions for leaders help create a platform for ongoing inquiry: within companies; among all affected constituencies in particular complex environments; among various constellations of business associations, governments, labour and civil society organisations, and development and peacebuilding actors; and among all of these voices and those of us who play supporting roles as researchers, consultants and teachers. Diverse perspectives brought together in honest and inclusive dialogue – tempered by sound data and considered experience – will lead to even better questions. These in turn move us more swiftly and surely towards new possibilities for action.

Please share with us your questions, experience, and ideas for the future. Our contact information can be found in the Partner Information section that follows. We look forward to hearing from you.



PARTNER INFORMATION:

# *Who developed this book?*

*“Fear of the unknown is broken down by regular engagement with a broad and diverse network, leading to clear thinking.”*

*– Country Manager, extractives industry, Africa*

## *Who is the sponsor?*



**The International Council of Swedish Industry** (Näringlivets Internationella Råd, NIR) is an independent non-profit organisation representing Swedish industry.

NIR is commissioned to support and broaden the scope of operations of Swedish business in markets which are politically, economically or socially complex. NIR works closely with large, globally active Swedish corporations that have the strategic interest and possibility to maintain a long-term perspective in their activities. NIR's interventions focus mainly on improving the structural conditions for business in the markets in which we operate, in order to promote economic and social development. NIR cooperates closely with both the public and the private sector, in Sweden as well as abroad. Additionally, NIR's mission includes establishing networks of interest to Swedish businesses and representing Swedish business as a whole. All activities are carried out with a long-term outlook. NIR's head office is in Stockholm, Sweden, and the organisation has a local presence in Africa, Latin America and the Middle East.

Through the insights of the authors and experienced managers, this book brings NIR's realm to the reader. The challenges of global trade and growth are what have motivated NIR and its member companies, since 1960, to sustainably engage in improving our own operations while contributing to the societies in which we operate. This book is a testament to the need for continued joint efforts across sectors to unlock complexity.

[www.nir.se](http://www.nir.se) / [info@nir.se](mailto:info@nir.se)

## *Who are the authors?*



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## *Who are the reference panel?*

*These business leaders lent their time, energy and support to this initiative. They provided review and advice at critical junctures to ensure the practical relevance of this work.*

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**Håkan Svensson** is responsible for strategic projects in Finance within Sales and Marketing at the Volvo Car Corporation. He builds on finance and business development experience, primarily in manager positions related to new or smaller entities abroad, including emerging markets. He is a member of the cross-functional Compliance and Ethics team that is developing and implementing a new Responsible Business – Volvo Cars Code of Conduct.



## *Who are the partner organisations?*

*These institutions provided generous access to their research, networks, and prior publications related to this initiative. Colleagues provided enormous insight and countless hours of support.*



**The Africa Centre for Dispute Settlement** (ACDS) is an academic hub for research, teaching, advocacy and action on conflict prevention and conflict resolution. Based at the University of Stellenbosch Business School in South Africa, ACDS works to increase positive engagement among business, governments and communities, particularly within environments of heightened socio-political tension. Its modes of work include capacity building, action research, consulting, policy and advocacy, and scholarly research.  
[www.usb.ac.za/disputesettlement/index.html](http://www.usb.ac.za/disputesettlement/index.html)



**CDA** is a non-profit organisation based in Cambridge, Massachusetts (USA) that promotes practical learning for effective international action. CDA organises collaborative learning projects to gather and analyse the experiences of international efforts and, from these, to identify patterns across contexts and types of programmes. Collaborative learning projects have involved colleagues in humanitarian assistance agencies, development agencies, peace practice groups, and corporate enterprises. CDA is home to the Corporate Engagement Program, the Do No Harm Program and the Reflecting on Peace Practice Program.  
[www.cdacollaborative.org](http://www.cdacollaborative.org)



**The Geneva Peacebuilding Platform** is an inter-agency network and knowledge platform that connects peacebuilding actors, resources, and expertise in Geneva and worldwide. Founded in 2008, the Platform has a mandate to facilitate interaction on peacebuilding among different institutions and sectors, and to advance new knowledge and understanding of peacebuilding issues and contexts. The Platform's network comprises more than 2,500 peacebuilding professionals and over 60 institutions.  
[www.gppplatform.ch](http://www.gppplatform.ch)



**The Institute for Business in the Global Context (IBGC)** is the hub for international business at The Fletcher School, Tufts University. IBGC provides an interdisciplinary lens through which global markets and the underlying drivers of change can be understood. It prepares leaders with essential contextual intelligence through four core activities: education, research, dialogue, and a laboratory. IBGC's initiative on Country Management and Doing Business in the BRICs was the genesis for this book.  
[www.fletcher.tufts.edu/IBGC](http://www.fletcher.tufts.edu/IBGC)



**The IRENE Institute of the ESSEC Business School** in Paris gathers researchers and practitioners in negotiation, mediation, stakeholder dialogue, and conflict resolution. It carries out research, field work and education. Its CODEV research programme studies company contributions to sustainable development where they operate, especially in areas of great poverty and social fragility. It also facilitates stakeholder consultation and dialogue. ESSEC IRENE ASIA is a platform for exchange on mediation and negotiation from an Asian perspective.

[sites.google.com/a/essec.edu/essec-irene-english/](http://sites.google.com/a/essec.edu/essec-irene-english/)



**Stockholm Policy Group AB** (SPG) is a value-driven consultancy firm providing professional research, analysis and strategic advice to private companies, government agencies and international and non-governmental organisations. SPG has expertise in political and social risk assessment, conflict sensitivity, international human rights, and advanced monitoring and evaluation methodologies. It has extensive experience leading research and analysis projects in complex political environments, including conflict-affected and fragile states.

[www.sthlmgroup.se](http://www.sthlmgroup.se)



RESOURCES AND SOURCE MATERIAL:

# *Where can I learn more?*

*“A leader has enormous responsibility and accountability for the business. You must be attentive to a host of issues rarely confronted in developed markets.”*

– Country Manager, extractives industry, Africa



*The following resources were consulted in the development of this book, including other works by the authors and their home organisations. This is how they are organised:*

- What's a good starting point? Some useful websites that aggregate resources
- What if I want to go deeper?
  - Resources for business about complex environments
  - Other practical resources about business in complex environments, including selected norms and standards
  - Practical insights from other sectors
- What else did the authors draw on? Some more specialised materials

## *What's a good starting point?*

The following are publically accessible websites that aggregate resources relevant to business operations in complex environments. They provide a good starting point for issue spotting, case stories, guidelines, and practical advice.

### **ACCESS**

[www.accessfacility.org](http://www.accessfacility.org)

ACCESS is a resource and a catalyst for better ways of working together among companies, communities and governments. It provides case stories, multi-media resources, and other materials, particularly on collaborative processes and dispute resolution.

### **CDA**

[www.cdacollaborative.org](http://www.cdacollaborative.org)

CDA's collaborative learning projects gather organisations in humanitarian assistance, development, peace practice, and the private sector to analyse their experiences and identify lessons that help them avoid repeating mistakes of the past and continually improve efforts in fragile contexts.

### **Business and Human Rights Resource Centre (BHRRC)**

[www.business-humanrights.org](http://www.business-humanrights.org)

BHRRC tracks the human rights impacts (positive and negative) of over 5,100 companies operating in over 180 countries. BHRRC also provides guidance materials and examples of good practice. Resources are available in English, French and Spanish.

### **International Finance Corporation (IFC)**

[www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Sustainability/Sustainability+Framework/](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/)

The IFC's Sustainability Framework and the related Performance Standards are a global benchmark for environmental and social risk management in the private sector. Its aims are sound environmental and social practices, transparency and accountability, and positive development impacts.

### **Institute for Economics and Peace**

<http://economicsandpeace.org>

The Institute publishes the Global Peace Index, composed of 23 indicators including levels of democracy and transparency, education and national well-being. The Institute researches inter-relationships among business, peace and economic development.

### **International Labour Organization (ILO)**

[www.ilo.org/global/topics/lang--en/index.htm](http://www.ilo.org/global/topics/lang--en/index.htm)

The ILO was the first specialised agency of the UN. It gives an equal voice to workers, employers and governments to shape labour standards, policies and programmes. The ILO offers many resources on labour topics relevant to complex environments.

### **Organisation for Economic Co-operation and Development (OECD)**

[www.oecd.org/dac/incaf/](http://www.oecd.org/dac/incaf/)

The OECD's International Network on Conflict and Fragility (INCAF) monitors international engagement – including by the private sector – with the world's 40+ fragile and conflict-affected states. It works to improve international engagement in these countries.

### **Participatory Methods**

[www.participatorymethods.org](http://www.participatorymethods.org)

This site brings together ideas, thoughts, studies, challenges, resources and other information about participatory methods with a focus on participatory approaches to strategic analysis and programme design, monitoring and evaluation.

### **Transparency International (TI)**

[www.transparency.org](http://www.transparency.org)

TI is a recognised leader on anti-corruption. Through more than 100 national chapters worldwide and an international secretariat in Berlin, TI works with partners in government, business and civil society to put measures in place to tackle corruption.

### **United Nations Global Compact**

[www.unglobalcompact.org/Issues/index.html](http://www.unglobalcompact.org/Issues/index.html)

The UN Global Compact is a policy initiative and information source for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

## ***What if I want to go deeper?***

The following resources are meant to help actors think about their operations in a complex environment. Some are written from an industry- or sector-specific perspective, but also cover issues of general applicability. Where noted, the resource is freely available online.

## **Practical resources for business about complex environments**

***Business and Decent Work in Conflict Zones: A “Why?” and “How?” Guide*** by L. De Luca (2003). Geneva: ILO. Provides advice to companies large or small, national or multinational. It examines decent work as a profitable investment in areas of heightened tension and conflict zones as well as effective business policies and practices.

Available from [www.ilo.org](http://www.ilo.org).

**Conflict-Sensitive Business Practice: Guidance for Extractive Industries** by J. Banfield, A. Barbolet, R. Goldwyn & N. Killick (2005). London: International Alert. Helps companies better understand social, security, political, economic and human rights dynamics taking place in their areas of operation as well as their role in such contexts.

Available from [www.international-alert.org](http://www.international-alert.org).

**From Red to Green Flags – The Corporate Responsibility To Respect Human Rights In High-Risk Countries** (2011). London: Institute for Human Rights and Business. Builds from the UN Protect, Respect, and Remedy framework to explore the human rights dilemmas and challenges companies face in high-risk countries and provide guidance for business leaders in meeting their human rights responsibilities.

Available from [www.ihrb.org](http://www.ihrb.org).

**Getting It Right: Making Corporate-Community Relations Work** by L. Zandvliet & M. Anderson (2009). Sheffield: Greenleaf Publishing. Helps company managers look at the links among specific company policies and practices and the positive or negative impacts these are having on a community, as well as on company-community relations.

**Guidance on Responsible Business in Conflict-Affected & High-Risk Areas: A Resource for Companies and Investors** (2010). New York: UN Global Compact & Principles for Responsible Investment. Explores responsible business practices in conflict-affected and high-risk areas consistent with the Global Compact Ten Principles.

Available from [www.unglobalcompact.org](http://www.unglobalcompact.org).

**Preventing Conflict in Exploration: A Toolkit for Explorers and Developers** (2012). Toronto, Mississauga & Cambridge, MA: Prospectors and Developers Association of Canada, World Vision Canada, & CDA. Helps think through how routine business activities might better further positive relations with local communities, even where tensions or conflicts exist in the local operating environment.

Available from [www.cdacollaborative.org](http://www.cdacollaborative.org).

**Red Flags: Liability Risks for Companies Operating in High-risk Zones** (2008). Oslo & London: Fafo and International Alert. The Red Flags are business practices which may result in legal liabilities for a company that operates in high-risk zones, including in conflict-affected areas.

Available from [www.redflags.info](http://www.redflags.info).

**Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets** (2007). Washington, DC: IFC. Provides an overview of stakeholder engagement, with a focus on affected communities, local government authorities, non-governmental and other civil society organizations, local institutions and other interested or affected parties.

Available from [www.ifc.org](http://www.ifc.org).

**Strategic Community Investment: A Good Practice Handbook for Companies Doing Business in Emerging Markets** (2010). Washington, DC: IFC. Provides advice for community investment programmes to help make them more successful, sustainable, and consistent with company business objectives.

Available from [www.ifc.org](http://www.ifc.org).

**Voluntary Principles on Security and Human Rights.** A multi-stakeholder initiative advising companies operating in zones of conflict or fragile states so that they can ensure that security forces operate in a way that protects the company's assets while respecting human rights and fundamental freedoms. Implementation Guidance Tools are also available.

Available from <http://www.voluntaryprinciples.org>.

**Weak Governance Zones - Risk Awareness Tool for Multinational Enterprises** (2006).

Paris: OECD. Poses a range of questions addressing risks and ethical dilemmas that companies are likely to face in countries where governments are unwilling or unable to assume their responsibilities.

Available from [www.oecd.org](http://www.oecd.org).

## Other resources about business in complex environments

**Beyond Codes of Conduct and Monitoring: An Organizational Integrity Approach to Global Labor Practices** by M. Santoro (2003). Human Rights Quarterly 25:2, pp. 407-424. Discusses the shortcomings of compliance programmes and highlights ways that firms can cooperate with NGOs, develop training and remediation programmes, and integrate proactive rights-sensitive sourcing policies with overall company strategy.

**Community Perspectives on the Business Responsibility to Respect Human Rights in High-risk Countries** by D. Bardouille-Crema (2011). Cambridge, MA & London: CDA and IHRB. Collects and analyses the perspectives of local community members living in areas of conflict. It explores how communities conceive of, articulate and prioritise their rights in situations where they are affected by foreign business operations.

Available from [www.cdacollaborative.org](http://www.cdacollaborative.org).

**Confronting Risk, Mobilizing Action: A Framework for Conflict Prevention in the Context of Large-scale Business Investments** by B. Ganson & A. Wennmann (2012). Berlin: Friedrich Ebert Stiftung. Explores challenges and opportunities for cross-sectoral collaboration on conflict prevention in fragile environments.

Available from [www.gplatform.ch](http://www.gplatform.ch).

**Extractive Industry Transparency Initiative** (EITI). This voluntary multi-stakeholder initiative brings together companies, government, investors and civil society to improve transparency and accountability in the extractive sector with the aim of reducing poverty, conflict and corruption. The EITI Standard establishes a methodology countries need to follow to become EITI compliant.

Available from [www.eiti.org](http://www.eiti.org).

**Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework** by J. Ruggie (2011). Geneva: UN Human Rights Council. The Guiding Principles outline how states and businesses should implement the UN "Protect, Respect and Remedy" Framework, the leading global standard for preventing and addressing the risk of adverse human rights impacts linked to business activity.

Available from [www.business-humanrights.org](http://www.business-humanrights.org).

**Guidelines for Multinational Enterprises** (2011). Paris: OECD. Provides principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation.

Available from [www.oecd.org](http://www.oecd.org).

**Human Rights, Corporate Complicity and Disinvestment** by G. Nystuen, A. Follesdal, and O. Mestad (eds.) (2011). Cambridge: Cambridge University Press. Explores the intersection of human rights violations and the moral and legal complicity of the corporation from the vantage point of the Norwegian Government Pension Fund.

**Peace Through Commerce: Responsible Corporate Citizenship and the Ideals of the United Nations Global Compact** by O.F. Williams (ed.) (2008). Chicago: University of Notre Dame Press. Presents 21 chapters by major business leaders and scholars who discuss the issues set out by the UN Global Compact.

**Position Statement on Indigenous Peoples and Mining** of the International Council of Mining & Minerals (2013). Outlines an industry commitment to respect the right to give or withhold consent to a project. It is an example of international standards becoming normalised in company commitments.

Available from [www.icmm.com](http://www.icmm.com).

**Private Sector Development in Post-Conflict Countries: A Review of Current Literature and Practice** by N. Mac Sweeny (2008). London: Donor Committee for Economic Development. Reviews the characteristics of the post-conflict private sector as well as the ways in which the development community can engage with it.

Available from [www.enterprise-development.org](http://www.enterprise-development.org).

**Publish What You Pay** is a network of more than 650 organisations that work for company and government transparency and accountability. It is one example of the growing organisation and sophistication of civil society.

Available from [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org).

**Report of the Expert Legal Panel on Corporate Complicity in International Crimes** (2008). Geneva: International Commission of Jurists. Examines emerging law on corporate complicity in gross human rights violations. Its three volumes address prudent behaviour; criminal responsibility; and civil liability.

Available from [www.business-humanrights.org](http://www.business-humanrights.org).

**Rights-Compatible Grievance Mechanisms: A Guidance Tool for Companies and Their Stakeholders.** by C. Rees (2008). Cambridge, MA: Harvard Kennedy School of Government Corporate Social Responsibility Initiative. Presents principles for effective, rights-compatible grievance mechanisms.

Available from [www.hks.harvard.edu](http://www.hks.harvard.edu).

**The Equator Principles** is a credit risk management framework for managing environmental and social risk adopted by roughly 80 financial institutions covering over 70% of international project finance debt in emerging markets.

Available from [www.equator-principles.com](http://www.equator-principles.com).

**The Role of Business in Armed Violence Reduction and Prevention** by A. Wennmann (2012). International Review of the Red Cross 95:886. This article explores the role of business in armed violence reduction and prevention (AVRP) strategies.

## Practical insights from other sectors

***Advancing Conflict Transformation: The Berghof Handbook II*** by B. Austin, M. Fischer, & H.J. Giessmann (eds.) (2011). Leverkusen: Budrich Academic. Collects insights on non-violent ways of managing inter-group conflict and what is needed for consolidating positive peace. Includes a chapter by L. Zandyliet on *Opportunities for Synergy: Conflict Transformation and the Corporate Agenda*.

Available from [www.berghof-handbook.net](http://www.berghof-handbook.net).

***Conflict Assessment & Peacebuilding Planning: Toward a Participatory Approach to Human Security*** by L. Schirch (2013). Boulder, CO: Lynne Rienner. Links practical conflict assessment exercises to the design, planning, monitoring, and evaluation of peacebuilding efforts. A website provides supplemental resources, learning tools, and case studies on conflict assessment and peacebuilding planning.

Available from [www.conflict-assessment-and-peacebuilding-planning.org](http://www.conflict-assessment-and-peacebuilding-planning.org).

***Confronting War: Critical Lessons for Peace Practitioners*** by M. Anderson & L. Olson (2003). Cambridge, MA: CDA. Explores why peace efforts have been less effective than they could be, and how analysis, strategy and programming can enhance impacts and contribute to addressing social conflict. The lessons and tools have been applied in development, advocacy, and social entrepreneurial contexts.

Available from [www.cdacollaborative.org](http://www.cdacollaborative.org).

***Corruption and Human Rights: Making the Connection*** (2009). Versoix: The International Council on Human Rights Policy. Analyses how corruption is increasingly used as a means and ends to human rights violations. It provides a conceptual basis for aligning the work of anti-corruption activists and human rights advocates.

Available from [www.ichrp.org](http://www.ichrp.org).

***Designing for Results: Integrating Monitoring and Evaluation in Conflict Transformation Programs*** by C. Church & M. Rogers (2006). Washington, DC: Search for Common Ground. Addresses the challenges of measuring and increasing the effectiveness of conflict transformation with practical tips and examples from around the world.

Available from [www.sfcg.org](http://www.sfcg.org).

***Evaluating Peacebuilding Activities in Settings of Conflict and Fragility: Improving Learning for Results*** (2012). Paris: OECD. Part of the Development Assistance Committee Guidelines and Reference Series, a widely referenced work setting out the core steps in planning, carrying out and learning from evaluation, as well as some basic principles on programme design and management.

***Do No Harm: How Aid Can Support Peace – Or War*** by M. Anderson (1999). Boulder, CO: Lynne Rienner. The book provides a simple and practical framework for analysing contexts of conflict and social and political tension and the ways in which outsiders' actions might make tension worse. It provides options for addressing potential problems. These are further developed in *Options for Aid in Conflict—Lessons from Field Experience* (CDA 2000).

**How-To Guide to Conflict Sensitivity.** (2012). London: Conflict Sensitivity Consortium. This guide drawn from the practical experience of development organisations helps manage unintended consequences related to conflict. It addresses analysis, planning, critical issues such as procurement and community and government relations, as well as institutional capacity for conflict sensitivity.

Available from <http://www.conflictsensitivity.org/>.

**“It’s Not Only Wealth That Matters – It’s Peace Of Mind Too:” A Review of Participatory Work on Poverty and Ill-being** by K. Brock (1999). Washington DC: World Bank. One of several outcome reports of the World Bank’s Voices of the Poor project, which included interviews with more than 20,000 people in 200 communities in 23 countries.

Available from [www.worldbank.org](http://www.worldbank.org).

**Making Peace Last** by R. Ricigliano (2011). Boulder, CO: Paradigm. Draws on field research, peacebuilding practice and systems thinking to explore the theory, analysis, and practice needed to create peacebuilding approaches that are as dynamic and adaptive as the societies they are trying to affect.

**Methods for Development Work and Research: A New Guide for Practitioners** by B. Mikkelsen (2nd ed. 2005). London: Sage Publications. Offers practical guidance combined with critical reflection on methods for matching data collection to decision-making needs, with a particular focus on dialogue, participatory methods, and flexibility of approach.

**Opting Out: Strategies to Prevent Violent Conflict** by M. Anderson & M. Wallace (2012). Boulder, CO: Lynne Rienner. Examines 13 communities which, in the midst of a context of war, made clear, rational decisions to not engage in violence. Looks at the commonalities of these diverse non-war communities to draw out lessons about the resources and strategies local communities use to prevent and avoid violence, and how outsiders can support them.

**Rising from the Ashes: Development Strategies in Times of Disaster** by M. Anderson & P. Woodrow (1998). Boulder, CO: Lynne Rienner. This book helps analyse capacities and vulnerabilities of populations. It helps design action to support the efforts of people in local contexts to achieve social and economic development, including approaches to taking decisions, choosing partners and engaging with communities.

**Time to Listen: Hearing People on the Receiving End of International Aid** by M. Anderson, D. Brown & I. Jean (2012). Cambridge, MA: CDA. Draws on conversations with nearly 6,000 people to explore people’s expectations and experiences of outsiders and the elements of the system of delivery of assistance (including charity and social investment projects) that undermine the positive impacts of those efforts.

Available from [www.cdacollaborative.org](http://www.cdacollaborative.org).

**Toolkit and Guidance for Preventing and Managing Land and Natural Resources Conflict** by D. Hailu, S. Rendtorff-Smith, U. Gankhuyag and C. Ochieng (2011). New York: UNDP. Examines national economic policies that can counter the potential adverse impacts of hydrocarbon and mineral extraction while simultaneously maximising the potential benefits.

Available from [www.un.org](http://www.un.org).

**Working Against Violence: Promising Practices in Armed Violence Reduction and Prevention** by P. Eavis (2011). Geneva: Geneva Declaration Secretariat. A review of practice trends in armed violence reduction and prevention.  
Available from [www.genevadeclaration.org](http://www.genevadeclaration.org).

**World Development Report 2011: Conflict, Security and Development** (2011). Washington, DC: World Bank. A widely referenced study of the links between security and development that provides policy advice on confidence-building measures and institution-building approaches to violence prevention and recovery in fragile situations.  
Available from [www.worldbank.org](http://www.worldbank.org).

## *What else did the authors draw on?*

Below are resources not listed above which the authors found useful to their own thinking and the development of the book:

*Amanco: Developing the Sustainability Scorecard* by R.S. Kaplan & R. Reisen De Pinho (2008). Harvard Business School Case Study. Describes the challenges of using the Balanced Scorecard to implement a triple-bottom-line strategy for economic, environmental, and social performance.

*Armed Violence Reduction: Enabling Development* by the Development Assistance Committee (2011). Paris: OECD. Proposes a strategically integrated approach to combat armed violence. It was developed in consultation with development practitioners and is grounded in over a decade of practice on armed violence reduction.

*Back to Basics: A Compilation of Best Practices in Design, Monitoring and Evaluation in Fragile and Conflict-Affected Environments* by V. Corlazzoli & J. White (2013). London: DFID. One of a series of Guidance Products developed under the Results Initiative in Conflict, Crime, and Violence Programming within DFID.

*Breaking the Cycle: A Strategy for Conflict-sensitive Rural Growth in Burundi* by I. Baghdadli, Ilhem, B. Harborne & T. Rajadel (eds.) (2008). Washington, DC: World Bank. Identifies areas in the rural economy with the greatest potential to stimulate growth and consolidate peace.

*Building Peace and Political Community in Hybrid Political Orders* by V. Boege, A. Brown, K. Clemens, & A. Nolan (2009). International Peacekeeping 16:5, pp. 599-615. Describes the origins and characteristics of hybrid political orders and how such governance arrangements affect peacebuilding.

*Categories of Corporate Complicity in Human Rights Abuses* by S. Jerbi and A. Clapham (2000). Hastings International and Comparative Law Journal 24, pp. 339-349. Examines and categorises the different meanings of complicity in the business context.

*Community-Driven Reconstruction as an Instrument in War-to-Peace Transitions* by S. Cliffe, S. Guggenheim & M. Kostner (2003). CPR Working Paper No. 7. Washington, DC: World Bank. Offers guidance on building governance structures that stress local choice and accountability.

Available from [www.worldbank.org](http://www.worldbank.org).

*Community Relations Management Systems in the Minerals Industry: Combining Conventional and Stakeholder-Driven Approaches* by D. Kemp, R. Boele, & D. Brereton (2006). Int. J. Sustainable Development 9:4, pp. 390-403. Advocates incorporating elements of the conventional management systems model into a more externally focused, stakeholder-driven and values-based approach.

*Conflict Analysis Framework: Field Guidelines and Procedures* by CDA, Global Partnership on the Prevention of Armed Conflict, and Norwegian Church Aid (2012). This handbook provides guidance on how to conduct a conflict assessment and a range of tools for analysing information.

Available from [www.cdacollaborative.org](http://www.cdacollaborative.org).

*Conflict Management and Corporate Culture in the Extractives Industry: A Study in Peru* by C. Rees, D. Kemp & K. Davis (2012). Corporate Social Responsibility Initiative Report No. 50. Cambridge, MA: John F. Kennedy School of Government, Harvard University. Examines how corporate cultures influence conflict management with local communities.

Available from [www.hks.harvard.edu](http://www.hks.harvard.edu).

*Conflict-Sensitive Approaches to Development Practice* by C. Gaigals with M. Leonhardt (2000). London: International Alert, Saferworld, IDRC. Provides a critical overview of the approaches to development in conflict-prone and conflict-affected areas.

Available from [www.conflictsensitivity.org](http://www.conflictsensitivity.org).

*Conflicted Corporates: Rethinking the Role of Business in Global Security* by M. Martin (2012). Global Policy 3, pp. 35-45. Examines the complex roles companies play in conflict-affected societies and proposes a human security perspective to address gaps in the current conceptualisation of corporate responsibility.

*Corporate Social Responsibility and Human Rights Law* by R. McCorquodale (2009). Journal of Business Ethics 87, pp. 385-400. Discusses the corporate responsibility to protect human rights in terms of its conceptual and definitional problems. It questions whether there will be sufficient legal remedies for victims under the Ruggie framework.

*Corporations and Human Rights: A Theory of Legal Responsibility* by S. Ratner (2001). Yale Law Journal 111:443, pp. 452-540. Explores the complexities of regulating business enterprises and discusses the prospect of making them a subject of international scrutiny.

Available from [www.yalelawjournal.org](http://www.yalelawjournal.org).

*Crime, Violence, and Development: Trends, Costs and Policy Options in the Caribbean* by United Nations Office on Drugs and Crime (UNODC) and the World Bank (2007). Vienna and Washington D.C.: UNODC and World Bank. Provides the statistics quoted in section 1.6.

*CSR and Inequality in the Niger Delta* by C. Renouard, & H. Lado (2012). Corporate Governance 12, pp. 472-484. Addresses in particular the issues of stakeholder engagement in the sensitive context of oil production in Nigeria.

*Discuss Together, Decide Together, Work Together*. Listening Program Issue Paper (2008). Cambridge, MA: CDA. Provided the “We want to discuss together, decide together” quotation in section 2.2.

Available from [www.cdacollaborative.org](http://www.cdacollaborative.org).

*Enriching Conflict Diagnosis and Strategies for Social Change: A Closer Look at Conflict Dynamics* by F. Glasl (2008). Berghof Handbook Dialogue Series 6. Berlin: Berghof Foundation. A synopsis of Glasl's own work on the stages of conflict escalation, a classic in conflict resolution.

Available from [www.berghof-handbook.net](http://www.berghof-handbook.net).

*Entry Strategies for International Markets* by F.R. Root (1998). San Francisco, CA: Jossey-Bass. A basic business text on entering foreign markets.

*Equity in Extractives: Stewarding Africa's Natural Resources for All* by the Africa Progress Panel (2013). Africa Progress Report 2013. This example of the increasing call for fairer benefit sharing between companies and countries is cited in section 3.1.

Available from [www.africaprogresspanel.org](http://www.africaprogresspanel.org).

*Global Burden of Armed Violence 2011*. Geneva Declaration Secretariat: Geneva. An overview of global trends of armed violence highlighting that only one of every ten violent deaths occurs in inter-state or civil wars.

Available from [www.genevadeclaration.org](http://www.genevadeclaration.org).

*Global Synthesis: Consultations with the Poor* by D. Narayan, R. Chambers, M. Shah, & P. Petesch (1999). Washington DC: World Bank. One of several outcome reports of the World Bank's Voices of the Poor project.

Available from [www.worldbank.org](http://www.worldbank.org).

*Human Rights Obligations of Non-State Actors* by A. Clapham (2006). New York: Oxford University Press. Presents an approach to human rights that goes beyond the traditional focus on states and explores the legal obligations and human rights responsibilities of non-state actors, such as multinational corporations, NATO, and the United Nations.

*Integrated Peacebuilding and Development Programming: Design, Monitoring and Evaluation* by S. Bayne with T. Vaux (2013). London: DFID. Provides practical guidance on how to design, monitor and evaluate programming that integrates a peacebuilding focus into interventions designed to promote development objectives.

Available from [www.cdacollaborative.org](http://www.cdacollaborative.org).

*Interim Report of the Special Representative of the Secretary-General on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises* by J. Ruggie (2006). United Nations Commission on Human Rights. U.N. Doc. E/CN.4/2006/97.

Available from [www.ohchr.org](http://www.ohchr.org).

*Investing in Security: A Global Assessment of Armed Violence Reduction Initiatives* (2011). Paris: OECD. So far the only comprehensive mapping of armed violence reduction and prevention strategies including studies of various countries.

Available from [www.oecd.org](http://www.oecd.org).

*Just Business: Multinational Corporations and Human Rights* by J. Ruggie (2013). New York: W.W. Norton & Company. Explains the evolution and development of the Guiding Principles on Business and Human Rights that intend to be an authoritative road map for ensuring responsible global business practices.

*Life After Violence: A People's Story of Burundi* by P. Uvin (2009). London: Zed Books. A book of people's stories about the past and the future, war and peace, their hopes for a better life and their relationships with each other and the state – often in contrast to assumptions made by international development and peacebuilding agencies.

*Making Sustainability Profitable: Lessons from Emerging Markets* by K. Haanaes, D. Michael, J. Jurgens & S. Rangan (2013). Harvard Business Review March 2013. Argues that in markets where resource depletion is most keenly felt, conservation efforts can be a source of competitive advantage.

*Mastering the Management System* by R.S. Kaplan & D.P. Norton (2008). Harvard Business Review January 2008. Presents an approach to balancing pressing operational concerns with long-term strategic priorities.

*Megatrends and the Future of Humanitarian Action* by E. Ferris (2011). International Review of the Red Cross 93:884, pp. 915-938. A concise summary of the main future risk trends with a focus on how humanitarian actors should position themselves for such risk.

*Monitoring and Evaluating Conflict Sensitivity: Methodological Challenges and Practical Solutions* by R. Goldwyn & D. Chigas (2013). London: DFID. Provides practical guidance on how to monitor interactions and evaluate interventions among conflict at various levels.

*Multinational Corporations and the Ethics of Global Responsibility: Problems and Possibilities* by M. Monshipouri, C. Welch, and E. Kennedy (2003). Human Rights Quarterly 25:4, pp. 965-989. Uses a human rights approach to describe how reliance on state duties alone may not be sufficient for curbing harmful corporate behaviour which can be detrimental to internationally recognised human rights norms.

*Non-State Actors and International Human Rights Law* by R. McCorquodale (2010). In S. Joseph and A. McBeth (eds.), Research Handbook on International Human Rights Law pp. 97-114. Glos. UK: Edward Elgar. Offers practical and conceptual ways forward to ensure greater protections for human rights, regardless of the perpetrator.

*Piloting Principles for Effective Company-Stakeholder Grievance Mechanisms* by C. Rees (2011). Cambridge, MA: Harvard Kennedy School of Government Corporate Social Responsibility Initiative. Lessons learned from mechanisms that address complaints or disputes involving businesses and their stakeholders.

Available from [www.hks.harvard.edu](http://www.hks.harvard.edu).

*Private Sector Development: Policies, Practices and Problems* by L. Schulpen (2002). World Development 30:1, pp. 1-15. Critiques private sector development policies of donor development cooperation efforts.

*Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* adopted by the OECD in 2012 is an example of convergence in international and national expectations of companies in complex environments.

Available from [www.oecd.org](http://www.oecd.org).

*Reflective Peacebuilding: A Planning, Monitoring and Learning Toolkit* by J.P. Lederach, R. Neufeldt & H. Culbertson (2007). Mindanao: Joan Kroc Institute for Peacebuilding, Notre Dame University and Catholic Relief Services. Intended to improve peacebuilders' ability to effect transformative change and track and improve upon those changes over time in unpredictable conflict contexts.

Available from [www.kroc.nd.edu](http://www.kroc.nd.edu).

*Requisite Organisation: A Total System for Effective Managerial Organisation and Managerial Leadership for the 21st Century* by E. Jacques (2006). London: Gower Publishers. Relates all aspects of leadership, work and human resources in a unified system.

*Re-Righting Business: John Ruggie and the Struggle to Develop International Human Rights Standards for Transnational Firms* by S.A. Aaronson & I. Higham (2013). Human Rights Quarterly 35:2, pp. 332-364. Assesses the Ruggie process and points to NGO demands for increased legal protections such as a multilateral legal instrument.

*Responsibility in World Business: Managing Harmful Side Effects of Corporate Activity* by L. Bomann-Larsen & O. Wiggen (2004). New York: UN University Press. Provides a theoretical and concrete analysis of corporate societal responsibility as dealing with core business activities' impacts.

*Smart Alliance. How a Global Corporation and Environmental Activists Transformed a Tarnished Brand* by J.G. Taylor and P.J. Scharlin (2004). New Haven: Yale University Press. Details the Chiquita banana company case mentioned in section 5.5.

*Stakeholder Theory. The State Of The Art* by R.E. Freeman, J.S. Harrison, A.C. Wicks, B.L. Parmar, & S. de Colle (2011). Cambridge, UK: Cambridge University Press. The bible for those interested in deepening their knowledge on the managerial stakeholder theory.

*State of Play: The Corporate Responsibility to Respect Human Rights in Business Relationships* by M. Wachenfeld and M. Hodge (2012). London: Institute for Human Rights and Business and Global Business Initiative on Human Rights. Details how 14 companies are incorporating the Guiding Principles on Business and Human Rights.

Available from [www.ihrb.org](http://www.ihrb.org).

*Supporting Statebuilding in Situations of Conflict and Fragility: Policy Guidance* by the OECD Donor Assistance Committee (2011). Paris: OECD. This is the formal guidance by the OECD and the closest to a consensus document about statebuilding that currently exists.

Available from [www.oecd.org](http://www.oecd.org).

*The 21<sup>st</sup> Century Corporation: The CERES Roadmap for Sustainability* by A. Moffat (2010). Boston, MA: CERES. Analyses the drivers, risks and opportunities involved in making the shift to sustainability.

Available from [www.ceres.org](http://www.ceres.org).

*The Logic of Honor: National Traditions and Corporate Management* by P. d'Iribarne (2003). New York: Welcome Rain Publishers. Was drawn on for the discussion of decision-making cultures in section 5.4.

*The Private Sector and the Fight Against Poverty* by C. Renouard (2012). Field Actions Science Reports [Online], Special Issue 4, at <http://factsreports.revues.org/1573>. Presents a synthesis of corporate responsibilities and challenges related to the fight against poverty and the search for sustainable development. It highlights long-term challenges.

*The Political Economy of Peacemaking* by A. Wennmann (2011). London: Routledge. This book focuses on the economic dimensions of peace processes and examines the opportunities and constraints for assisting negotiated exits out of conflict.

*The Role of Private Sector Actors In Post-Conflict Recovery* by J. Bray (2009). Conflict, Security & Development 9:1, pp. 1-26. Examines how businesses will play different roles depending on how they assess risk and opportunity in the aftermath of conflict.

*The Stakeholder Engagement Manual, Vol. 1: The Guide to Practitioners' Perspectives on Stakeholder Engagement* by K. Partridge, C. Jackson, D. Wheeler & A. Zohar of Stakeholder Research Associates Canada Inc. (2005). Provides practitioners with examples and analysis of stakeholder engagement from a corporate as well as NGO or government perspective.

*Thick and Thin. Moral Argument at Home and Abroad* by M. Walzer. Notre Dame: University of Notre Dame Press. Provides an enlightening reflection on the ethical issues at stake in a multicultural world. It helps combine universal principles and respect for cultural diversity.

*Think Global, Act Global: Confronting Global Factors that Influence Conflict and Fragility* (2012). Berlin: German Federal Ministry for Economic Cooperation and Development & OECD. This report is the synthesis of a process to identify the global factors that affect conflict and fragility.

Available from [www.oecd.org](http://www.oecd.org).

*Trust and Markets* by J. Beckert (2006). In R. Bachmann and A. Zaheer (eds.). *The Handbook on Trust Research*, pp. 318-331. Cheltenham: Edward Elgar. A scholarly analysis of the role of trust in the functioning of markets and economic exchange.

*Understanding Peacebuilding as Essentially Local* by C. de Coning (2013). Stability 2:1, pp. 1-6. A poignant analysis of complexity in peacebuilding contexts analysing issues of local ownership, roles for international actors, and interaction among various actors.

*Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* by D.C. North, J.J. Wallis, and B.R. Weingast (2009). Cambridge: Cambridge University Press. This book integrates the problem of violence into a larger social science and historical framework, showing how economic and political behaviour are closely linked.

*Where are 'Pockets' of Effective Agencies Likely in Weak Governance States and Why? A Propositional Inventory* by D.K. Leonard (2008). Working Paper 306. Brighton: Institute of Development Studies. An introduction to pockets of effectiveness, why they work, and what their limits are.

Available from [www.ids.ac.uk](http://www.ids.ac.uk).

*World Report on Violence and Health* by the World Health Organization (2002). Geneva: World Health Organisation. This report sets out the public health approach to violence and notes violence as a public health concern.

Available from [www.who.int](http://www.who.int).

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# Management in Complex Environments:

## Questions for Leaders

**Companies operating in complex environments require a rigorous understanding** of the economic, political, social and conflict dynamics of which they become part. Such insight helps them navigate substantial risks and challenges, grow their business even in unexpected places, work more effectively with local, national and international actors, and make meaningful contributions to stability and development.

**This book combines expert analysis, company case stories, and reflections from more than 100 business leaders.** Drawing on a vast repository of knowledge and experience, it poses essential questions to better understand a particular complex environment and lead the company within it.

**It concretely demonstrates how leaders can help their companies meet their full range of goals** – technical, financial, legal, reputation and social – by addressing the questions set out in this book.

**It is an invaluable resource** for corporate practitioners and others concerned with company operations in complex environments.

PRIMARY SUPPORT FOR THIS WORK COMES FROM



Näringslivets Internationella Råd  
International Council of  
Swedish Industry



PARTNER ORGANISATIONS:

Africa Centre for Dispute Settlement, University of Stellenbosch Business School

Corporate Engagement and Reflecting on Peace Practice Programs, CDA

Geneva Peacebuilding Platform

Institute for Business in the Global Context of The Fletcher School, Tufts University

IRENE Institute of the ESSEC Business School

Stockholm Policy Group

ISBN 978-91-637-3991-0



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